THE OUTLOOK

The Gathering at Washington—Who Won in the Railroad Strike?—Unfavorable German Financial Condition—Discount Rates and Credit—The Market Prospect

ANNOUNCEMENT that the total unemployed for the country was reduced by 1,000,000 during the month of October indicates the progress which has been made in industry and commerce. Other signs of improvement include: greater steel, iron, coal and coke production; relative stability of prices in many lines; increase of activity in wholesale and jobbing trade; improved railroad showing, and generally more optimistic sentiment in business circles. In the agricultural sections there has been a noteworthy improvement of demand. The credit situation is steadily improving. On the other hand, foreign trade is still in an unsettled state, failures are growing more numerous and some of the secondary industries such as tires, motors, machinery and chemicals are quiet or actually slumping. On the whole, adjustment cannot be said to have been completely effected but we seem to be slowly approaching such a state.

* * *

THE ARMS CONFERENCE

THE Arms Conference opening November 11 in Washington includes the representatives of nine important nations and will probably be the most important economic as well as political, which it is acknowledged to be, event of this interesting period. No definite program has been announced on the part of the Administration but it is the general belief that attention will be paid to questions of public indebtedness, foreign exchange and the entire complicated international financial and economic situation as well as to the primary purpose of the Conference, which is to settle the armament question.

Considerable preparation has been made by the foreign representatives in planning for their activities at the Conference. Our own delegation has not been backward in this respect and will come fully equipped with the elaborate data compiled by the Treasury and Commerce Departments.

While considerable scepticism is maintained in many quarters, foreign as well as domestic, as to the outcome of the Conference, there is no question that the delegates themselves come fully imbued with the feeling that there is a great opportunity to settle many pressing problems with which the world is confronted. *It is not an over-statement to say that this meeting between military, economic and political chieftains throughout the world is the most momentous since the Peace Conference in Paris.*

Thus a new opportunity is presented for the resuscitation of Europe and other parts of the afflicted world. Additionally, we stand to profit in no small degree from an adequate solution of the problems which will be faced by the Conference. Every sincere well-wisher of Europe fervently hopes that the Conference marks the beginning of a new and more happy era in international relations.

* * *

THE RAILROAD STRIKE

CONFLICTING opinions with reference to the termination of the railroad strike evidently prevail in different sections of the community. The first feeling when the positive termination of the strike threat was made known on the 28th of October was one of relief coupled with the idea that a victory had been won by public opinion. This view of the case was considerably strengthened by the announcement made by the railroad men themselves. They made it clear in this statement that they felt that in striking they would be antagonizing the Government and the general public, and they asserted that because of this situation they had deemed it wise to discontinue their effort to force concessions on the part of the railroads.

respect and will come fully equipped with the elaborate data

however, was what seemed to be the fact, made known through unofficial announcements from Chicago, to the effect that the Labor Board or members of it had practically pledged themselves to an understanding which would defer the date of further consideration of railroad wage readjustments until after July 1, 1922. Questions relating to working rules and conditions would meantime be given the right of way, so that the employees might in one sense regard themselves as having been guaranteed a continuation of their present rates of pay for a period of several months. In this view of the case, they would have won a very decided victory instead of suffering a defeat, inasmuch as their strike threat would practically have resulted in the equivalent of an assurance that their present rates of pay would not be interfered with for something like a year. It is not yet certain how far any such understanding can actually be enforced so that as yet it is far from clear whether the closing of the strike has been in fact an expensive matter or, as supposed by many, a decided victory on the part of sound public opinion.

* * *

GERMANY'S POSITION

THE fact that the mark has now gone below one-half cent once more calls attention to the increasing economic difficulty which Germany is encountering. The retirement of the Cabinet and the political changes accompanying such retirement had been fully expected but, as is now seen, the substitution of anything more generally satisfactory appears to be difficult if not impossible. Why this should be is easily enough understood when it is remembered that the problems faced by the outgoing Cabinet were essentially of the fundamental economic nature which must be met in precisely the same way by the new officers of the German Government. That they are very serious is admitted in the action lately taken to defer the payment of reparations instalments for two weeks, with the probability that they will be still further postponed at the expiration of that time.

Advices from Germany clearly indicate that the payment of the first instalment was effected by drawing upon resources which ought to have been retained for future use, or for the upbuilding of domestic credit. This means that Germany is in less satisfactory position to meet the second than she was to pay the first instalment. All the facts in the case seem to bear out the opinion that a revision of the reparations plan will be necessary and that probably a larger proportion of the payments than was expected will have to be in goods rather than in cash or drafts on banks.

* * *

CUTTING DISCOUNT RATES

ANNOUNCEMENT that the Federal Reserve Banks of New York and Philadelphia have cut discount rates to 4½% while at the same time six other Federal reserve banks have made a parallel reduction to 5½% or lower, carries still further the policy of curtailment in the cost of credit which has been under discussion for a long time past. The charge for credit at reserve banks is on the average getting well down to the low point of former years, and this notwithstanding the fact that commercial and call rates have maintained themselves substantially. The growth of a wide discrepancy between reserve bank rates and rates at commercial banks as well as between reserve bank rates and commercial paper rates in the open market has seriously raised the question whether it is not true that the classical theory of relationship between the Central bank charge and the market charge is out of date. In a good many utterances, made by banking authorities during the past year or more, there has been a disposition to recur to the older British view that central bank rates should in general be higher than "market rates." If this view were to be adhered to at the present time, recent reductions would certainly not have taken place. Recent policy as to discounts at the Bank of England is instructive as showing that in England as well as in the United States the older idea of "leading the market" is regarded as either obsolete or at all events inapplicable under present conditions. The lack of free movements of specie and the wholly abnormally international conditions which now prevail are clearly regarded as affording a good and sufficient reason for the non-observance of what had come to be regarded as a maxim or canon of conservative central bank management. *As things stand a decline in commercial rates cannot be positively predicted as the outcome of the reductions at reserve banks, but the cut will at least tend in that direction.*

* * *

THE MARKET PROSPECT

RECENT developments in nearly all cases have been on the constructive side. The easing in money rates has had a remarkably broadening effect on the bond market, transactions running into large totals, with a well diversified interest on the part of all types of investors.

This genuine investment demand being unmistakably demonstrated, encourages confidence in the future for investment stocks of all kinds, financial history having proved that when bonds have risen to a point where they are not so attractive, investment money then flows into stocks, beginning with high grade, and so on down the list.

With encouraging reports from so many different lines of industry, it may well be said that the discounting of improved business conditions is well under way, and although the process may be a slow one in certain lines, prices are still within hailing distance of the low points and probably far from their ultimate high levels.

It has been stated that the best way to profit by such a situation is to buy your securities, put them away, and forget about them until boom time arrives; but in view of the great variety of industries now represented by securities listed on the New York Stock Exchange, and the conflicting influences which affect the various groups, the investor is more than ever obliged to watch developments closely.

Kahn Tells Why Prosperity Is Delayed

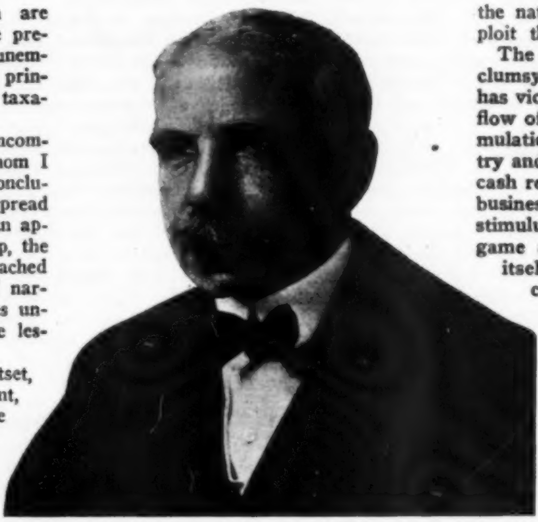
Leading American Banker Points to One Influence as Primarily Responsible for Unprosperity and Unemployment

AMONG the influences which are primarily responsible for the prevailing unprosperity and unemployment in this country, one of the principal ones is the faultiness of our taxation system.

I am most reluctant to attribute uncommendable motives to those from whom I differ, but it is difficult to resist the conclusion that even at a time when widespread distress makes so loud and urgent an appeal for the remedy of statesmanship, the matter of tax revision is being approached by some legislators in the spirit of narrow partisanship and with prejudices unattenuated by the all too irrefutable lessons of the past four years.

Permit me to point out, at the outset, that from the merely selfish standpoint, the man of means need have little quarrel with the existing schedule of surtaxes. If he chooses to avail himself of the lawful opportunities at hand, he can invest a greater or less portion and, in some cases, all of his capital in tax exempt securities at an attractive rates of interest, and, to the extent that he does so, the income tax and surtaxes will cease to trouble him.

In making the following observations, I am actuated by the conviction that an adequate reduction of our extreme surtaxes is among the things indispensably requisite to restore the economic equilibrium and the prosperity of our country.



OTTO H. KAHN

"I am engaged in the business of financing enterprise and I know from personal experience how continuously projects, the execution of which would aid in turning the wheels of industry and creating employment, are running up against the impediments of taxation and are broken on them and discarded."

Working Capital is Penalized

The higher brackets of the surtaxes have ceased to be productive. They have, in fact, largely abolished themselves, but in the wrong way. To the extent that they are collected, they penalize the working capitalist, the man engaged in enterprise and active business as against the idle capitalist. They have produced less and less, year by year. According to the last published figures, they produced but one-third approximately of what they produced in the first year of their existence, and for the present year they will unquestionably produce still less. Quite apart from the simple way of avoidance, through investment in tax exempt securities, they challenge the ingenuity of those subjected to them, to find means of escape from their rigor, as every extreme statute does.

It is human nature that men will resort to any legitimate means of defense against unreasonable exaction. I have personally no doubt that surtaxes which (including the normal tax) do not claim more than, say, as a maximum, one-third of a person's income, will produce a larger revenue than the present rates which claim up to nearly three-quarters of a person's income. Our extreme surtaxes have all the ill effects of a measure which hampers and deters enterprise, drives funds into tax-exempt securities or into hiding and interferes with the free flow of capital, without even having the advantage of producing anything like commensurate revenue. They are one of the most perfect demonstrations of the perverse workings of an unwise and economically unsound law.

Why No Money Available for Enterprise

Why is it that in the face of unprecedented gold reserves and of a long-continued process of commercial liquidation, which should have brought about a commensurate easing in the price of capital, investment funds can only be obtained at rates without a parallel in a generation and longer?

(*) Why is there no money available for mortgages and building operations?

Why, with the proverbial energy and push of our people, has new enterprise come to a standstill? Why is the man who asks for funds for the financing of a proposition, in itself attractive and sound and promising, met with the response: "Not now"?

Why does America, coming out of the war with her strength practically undiminished and her relative position among the nations greatly enhanced, fail to exploit the opportunities at her hand?

The principal direct single cause is clumsy and destructive taxation, which has violently interfered with the normal flow of capital, has prevented the accumulation of funds necessary for industry and enterprise, has appropriated the cash reserves needed for the conduct of business and has largely removed the stimulus of reward. If the rules of a game are that one party takes upon itself all the risk of loss, all the care, worry, venturing and effort and the other party takes the bulk of eventual winnings, in the shape of surtaxes, excess profits taxes and inheritance taxes, the inevitable result will be that the former party will at last reach the conclusion that the odds are too heavy against it and will abstain from playing.

I have heard it said, in response to arguments on the lines of the foregoing, that after all, what is effected by our high surtaxes and similar taxes, is simply a dislocation or redistribution of money and nothing more. The money taken by these taxes, it is said, does not vanish. It is merely taken out of the bulging pockets of the rich and put into general circulation again through being expended by the Government.

That has a plausible sound, but it overlooks two vital considerations:

First, money in the hands of the government cannot possibly be anywhere near as productive and fructifying and active as in the hands of individuals. There are many reasons for this all too well attested fact, one of them being that, unlike the individual, government is not stimulated by the expectation of reward, nor deterred by the penalty of failure.

Secondly, money is an instrument merely. It produces different results according to how and by whom it is used. Much of the largest part of the nation's liquid capital is owned by those of small and moderate means, either in the shape of direct investments or through deposits in savings banks or with life insurance and kindred institutions. But the funds so held are not, generally speaking, and ought not to be, available for starting and financing new and untried enterprises. The man of small means ought not, and as a general rule will not, and savings banks and life insurance concerns, etc., do not, and indeed under the law must not, place funds otherwise than in seasoned investments. The capital which can afford to take, has an incentive to take, ought to take and heretofore has taken, the risk of starting and financing new enterprise and doing the pioneer work of the country, is that relatively small percentage of the

*It is true that there is, for the time being, an active demand for bond investments (partly due to slackness of general business, to the absence of enterprise, and to the lack of faith in any but fixed interest-bearing investments) but owing to the withdrawal of men of considerable incomes from the field of taxable bonds, the cost of investment money has remained inordinately high for the borrower, and the cost of the sale and distribution of bonds has doubled, since the surtaxes have come into operation.

nation's total capital which is represented by the surplus funds of corporations and of well-to-do individuals. That is a most valuable function for the nation, and that function has been woefully crippled by the existing surtaxes, both because they have prevented the accumulation of capital and because they have taken away the incentive to venturing and risk-taking.

The source of the supply of funds for pioneering and for developing the country has run dry under the withering action of those taxes. It will so continue until surtaxes are reduced to an adequate extent.

Damaging Application of Plausible Formula

The formula "taxation according to ability to pay" has a close spiritual relationship to the Wilsonian formula of "self-determination." Both are right in theory, but both must be applied within the rule of reason and with that discrimination which takes account of practical effects and consequences, else they are bound to become mischievous and breeders of great harm, as indeed they have become. I can think of few greater disservices rendered to those who were meant to be benefited, than our taxation policy based upon the doctrine of "ability to pay." The common man may have been saved a few dollars a year in taxes, ostensibly, but he has been disadvantaged by many times a few dollars in the way of taxes passed on to him in added costs and in the way of bad times and unemployment.

In faulty taxation and its result in throwing the economic equilibrium of the country out of gear and putting barriers across the old-established routes of trade and industry, must be found one of the main explanations for that stagnation and depression which keeps millions of men idle. In the all-pervasive effects of faulty taxation must be found one of the reasons for the maladjustment which causes inordinately low prices for the things the farmer produces while at the same time enhancing the costs of the things he buys.

I am engaged in the business of financing enterprise and I know from personal experience how continuously projects, the execution of which would aid in turning the wheels of industry and creating employment, are running up against the impediments of taxation and are broken by them and discarded.

Our Surtaxes Highest in the World

The man of small or moderate means is taxed far less in this country than in any of the leading nations of Europe. That is as it should be because the sum total to be raised by taxation for our governmental needs is moderate, in comparison with what it is in the principal European countries, relative to our wealth and population and theirs. But our federal surtaxes rise to rates higher than exist in the tax schedules of any other nation, and that without taking into account State income taxes, which are unknown in Europe.

It cannot be supposed that European peoples have particular tenderness for rich men, any more that we have, or that in the extremity of their needs they would hesitate to go the limit in exacting contributions from wealth. But these nations have larger and longer experience in these matters of governmental economics than we have and they have learned that there is a limit beyond which direct taxation cannot go without consequences both damaging to national revenue and dangerous to national well-being. **Even if our highest surtax rate is reduced to 32%, it will still be in excess of the highest surtax rate in most European countries.** (The taxation about to be introduced in Germany, defeated and under a staggering burden of reparation, is, of course, not one with which comparison can be made for purposes of ordinary and orderly revenue-raising. Moreover, even in that unprecedented scheme of taxation, there is no such degree of differentiation between the moderately well-to-do and those in possession of large incomes, as exist under our schedule of super-taxes.)

Riding a Good Horse to Death

For many years, prior to the war, America's development proceeded by leaps and bounds and the people prospered under a scheme of taxation which had been in vogue practically since the beginning of the Federal Government and which sat so lightly on everybody that the subject of taxation was one of but slight general concern. In the recent past, by constitutional amendment, we introduced into our tax system the principle of the progressive income tax, which I wholly approve. But **to raise direct taxation, as we have done, at one fell swoop, from a small fraction, as heretofore, to practically 80% of our total revenue, means riding a good horse to death.**

There is really no difficulty in providing the three and a quarter billion dollars which the Government requires in taxes, without causing a continuance of those tribulations which now weigh upon all the people, although they were meant and mistakenly expected to weigh upon a small minority only. But to accomplish this task, we must be willing to recognize the facts which experience, both with us and in other countries, has demonstrated unmistakably, and to act accordingly.

The whole theory never applied heretofore either in this country or elsewhere, of piling on huge taxes at the top in the expectation that they would not percolate downward, is a fallacy which has been proved such by the actual test of the last few years and will, I am convinced, be found not to be reconcilable with the social, economic and governmental conceptions of this or any other country, the institutions of which are based upon the system of individual enterprise as contrasted with the socialist or semi-socialist theory of civilization and government.

There is bi-partisan testimony from the highest quarters to the effect that the extreme brackets of our surtaxes have ceased to be productive, are harmful in effect and should be adequately reduced. Former President Wilson has so stated. So have three Democratic Secretaries of the Treasury, viz.: Messrs. McAdoo, Glass and Houston. So has the former Under-Secretary of the Treasury, Mr. Leffingwell, a Republican. So has the present Secretary, Mr. Mellon. So have the most eminent economic experts. A reduction of the highest surtax bracket to 32% which with the addition of the normal tax means income taxation at the rate of little short of 40%, to which must be added State, County and Municipal taxation, cannot be considered in times of peace as erring on the side of excessive leniency.

Relief for Unemployment and Bad Times

The road to the relief of unemployment and an improvement in the plight of the farmer lies, among other things, along a system of taxation which seeks to promote industry rather than lame and retard it. I realize fully, and deplore, the situation in which the farmer in this country finds himself. It is a situation which has been created by no fault of his, but it is a situation from which he cannot escape by narrow or sectional devices. The greatest aid which the farmer can exert on his own behalf is to take a helpful attitude toward industry and insist upon his representatives in Congress giving effect to this enlightened point of view. In so far as a revival of manufacturing and productive industry generally is made possible, will there be created that purchasing and consuming power upon which the farmer must depend to sell the commodities which he produces. It is, largely, because purchasing and consuming power is so greatly reduced that the farmer's plight has been rendered so grave. What he needs most is to restore that purchasing and consuming power on the part of the people at large to whom he must sell his products, and nothing can contribute more effectively, in this country, to the attainment of that consummation, than a sound and broadminded revision of our tax laws. And may I venture to add that revision along the lines now being urged upon the Senate Finance Committee will be fatal to accomplishing the ends which, while they are of importance to the well-to-do, are of infinitely more vital consequence to the farmer whose markets have crumbled and to the workingman whose jobs have disappeared.

Huge Exodus of Capital

Lastly, and it seems to me, conclusively. There are at present over fifteen billion dollars of tax-exempt securities available and more are coming out almost daily. In the first eight months of this year approximately seven hundred million dollars of such securities have come upon the market; in the month of August alone, one hundred million dollars.

True, there is a movement on foot to have a constitutional amendment adopted which will prevent henceforth the issue of tax-exempt securities. But such an amendment would relate to future issues only, and, moreover, cannot be ratified and become effective for several years. By that time, the aggregate of tax-exempt securities outstanding will have become so vast that for immediate revenue purposes the prohibition of future issues will have little more effect than locking the stable door after the horse has escaped.

There is but one effective way of stopping the huge exodus which has been going on and continues ever-increasingly to go on, of capital into the haven of tax-exempt securities, and that is, so to reduce surtaxes as to re-

(Continued on page 57)

My Reasons for Supporting a Protective Tariff

And Why That Tariff Should Be Based Upon American Valuation

By HON. JOSEPH W. FORDNEY, Chairman of the House Ways and Means Committee

THE House of Representatives recently passed two great revenue measures, now before the Senate—the general tariff revision bill, and the general revision of our internal revenue laws. The Senate has decided to take up the internal revenue bill and pass it ahead of the tariff bill. I think that is a most serious mistake. There will be no profits to pay by the manufacturers of this country until we give them an opportunity to make some money. Before I get through, my readers may arrive at the conclusion that I am a strong protectionist. I never deny that charge.

But let me tell what we are doing right now. We are importing at the rate of about $300,000,000 worth of foreign goods per month into the United States. Most of those goods could be made here. There is not a manufactured article produced in the United States in which the labor cost is less than 90% of its total cost—and from that to 99%. I do not mean just the labor cost in some particular factory, you understand, but, following the raw material from start to finish, you will find the labor cost is generally more than 95% of the total cost of that article. If any man will show me wherein the labor cost is less than 90%, I will show him a white blackbird, for there is not any such thing.

Now, if that is true, of the $300,000,000 that we are sending abroad each month now to buy foreign made goods, $250,000,000 a month is going out from the people of the United States to employ German, French, English, Japanese and Chinese labor, while our laborers are walking the streets in idleness. There is no question but what that is correct. Some men differ with me, and they have a right to differ with me. I do not criticise a man for dissenting from or disagreeing with me. He has an honest opinion, and he is honest in his convictions, as I am in mine; but I want to argue with him that he is in error when he says that the people of this country will be more benefitted by free trade than by our protective tariff law. Our laborer receives more for the effort given than any people on the face of the earth. Our labor is higher priced than that of any country in the world. Canada comes nearer to us, in cost of production, than any other country in the world. Our standard of living is higher in this country than it is in any other country in the world. We have better homes, better schools; we are better clothed and better fed than any other people in the world.

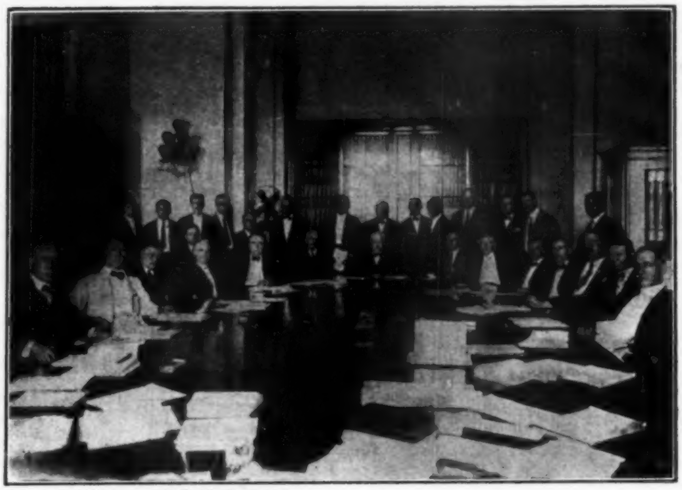


Photo by Underwood & Underwood

THE WAYS AND MEANS COMMITTEE IN SESSION

Seated at the able, left to right: James A. Frear, Wisc.; Charles B. Timberlake, Col.; Henry W. Watson, Pennsylvania; Whitmell P. Martin, La.; John F. Carew, N. Y.; Secretary of the Treasury Mellon; Joseph W. Fordney, Chairman, Michigan; William A. Oldfield, Ark.; John N. Garner, Tex.; Charles R. Crisp, Georgia; Thomas A. Chandler, Okla.; George M. Bowers, W. Va.; Lindley H. Hadley, Washington, and John C. Tilson, of Connecticut.

Standing, left to right: Clayton F. Moore, Asst. Clerk; Ernest W. Camp, Clerk of the Committee; Mr. Beaman, of Legislative Drafting Service; Nicholas Longworth, Ohio; Isaac Bacharach, N. J.; Mr. McCoy, of the Treasury Department; Allen T. Treadway, Mass.; Dr. Adams, of the Treasury Department; William R. Green, Iowa; Willis C. Hawley, Oregon; A. B. Houghton, N. Y.; George M. Young, N. Dakota, and Ira C. Copley, of Illinois.

"We Cannot Raise Foreign Standards"

Under free trade we must come to a common level somewhere, sometime, if we are to compete with all of the countries of the world. Today German labor is paid from 60 to 65 cents per day in gold—not for eight hours' work, but for ten or twelve hours per day. Japanese and Chinese labor is paid from 12 to 18 cents per day in gold for twelve hours' work—about a cent or a cent and a half per hour. Now, if we have to be placed on a par with those countries, to meet the imports from those countries, do you believe that we can lift those foreign countries up from the standard of living which at present prevails in them? Not at all. We have got to come down to a common level somewhere, and we are not ready to do that, and we are not going to do that.

I had hoped that the Senate might change its mind and pass our tariff bill in November, or December, at the very farthest away. I know no good reason why our internal revenue bill should be considered ahead of the tariff bill, because the income tax of individuals and corporations is not due and payable—that is, the first installment—until the 15th of next March. There is plenty of time to pass the law before that time.

The people of the country are demanding tariff revision. Some people say that Canada is going to retaliate. Canada is the best customer we have in the world, on the basis of population. There is no place in the world where our balance of trade is stronger than in Canada.

Canada has no reason to complain about the rates fixed in the new tariff bill; none whatever. I will tell you why. Last year Canada collected $19.50 in import duties for every man, woman and child in Canada.

Great Britain, the great free trade country of the world, or said to be, collected $16.50 per capita, or $728,000,000. We collected $3.15.

Little Japan is collecting at the rate of 20% ad valorem upon all her imports, dutiable and free. We have the lowest duty of any principal country on the face of the earth right now, and have had since 1913.

One year, under the Payne tariff law, we had the greatest volume of imports of any year in the history of the republic up to that time—$1,812,000,000, and on those imports we collected in round numbers $331,000,000 in revenue import duties.

Last year, under the Underwood tariff law, we imported $5,300,000,000 worth of foreign goods and collected exactly the same amount of duty, $331,000,000, that was collected under the Payne tariff law on $1,812,000,000 of imports, one-third the ad valorem rates of duty under the Underwood law that were collected under the Payne law. Had we collected the same percentage of duty on imports last year that were provided for in the Payne tariff law, we would have collected a billion dollars of revenue.

"How Tariff Will Curtail Imports"

We hope that this new tariff bill will curtail imports. We believe it will, but there are no rates in that law that are prohibitive, none at all. We never had and never will have a tariff law

that will be an embargo on imports. It would not be wise to do it. Wise men will not adopt such a law. But what we do want is to get just as near as possible in imposing an import duty on foreign goods, one that will bring the cost to the foreigner up to the level of our cost of production in this country.

No American is afraid of any foreigner, unless under our laws that foreigner has an advantage over him. The American is ingenious enough to hold the business of this country, unless you give his competitor an advantage over him. That is what we are afraid of, having the rates too low.

There is one new provision in this bill and it is going to be written into the law. I am not going to prophesy, but I am going to say it will.

Way back in 1879 we had a provision in the tariff law to collect ad valorem duties on the American valuation. There was a future time fixed for that law to take effect, but before it took effect the great influence of the importer brought to bear induced Congress to repeal that provision of the law.

Let me show what we do under the existing law as an injustice to the country of the highest cost of production that deals with us. We discriminate against them. They pay more duty when the duty is the ad valorem duty. Specific duties are not affected by the value.

Under the existing law, if you went to Canada and purchased, say a thousand dollars' worth of goods, that paid 25% ad valorem, when you landed those goods you would pay $250, wouldn5t you, 25% of the $1,000. Therefore the lawful value in Canadian goods would be $1,250.

We have changed that in this bill, but we have to collect the same amount of duty, the same amount of money on those same goods in quantity and quality alike, and we have reduced the duty from 25% to 20%, because 20% of $1,250 is $250; 25 per cent of $1,000 is $250. So that Canada will pay no more duty under that provision than under the old law where the duty is 25% ad valorem.

We could go to Germany and buy those goods at a much lower price than they can be purchased in Canada, the same article.

For easy figuring, say we can buy those same goods in Germany for $800. Under the eisxting law the duty is 25½. Twenty-five per cent of $800 is $200, $50 less duty than the Canadians would pay on the same goods.

We know further that we can go to Japan and purchase those same goods for $500 or less, because of their cost of production being so much lower than any other country in the world. Twenty-five per cent of $500 is $125. That is the amount of duty that Japan would pay on the same kind and the same quality of goods that you bought from Canada. Therefore, you have discriminated against Canada and made her pay more duty than any other country in the world, because of her higher cost of production.

Now, what have we done? The American valuation is going to be $1,250 on all those goods, and Canada, Germany and Japan will all pay the same amount of duty, $250.

Why Oppose American Valuation?

Some people are opposing American valuation, some of the great importers of the country. Some of them have sent out circulars appealing to the merchants of this country, the manufacturers, to appeal to your congressmen and your senators to oppose American valuation. Why?

I will tell you why. Last year in the customs office of New York alone there were 5400 cases of undervaluation, and this year they are running at the rate of 500 cases a month.

Why do foreigners who export to this country or people who import to foreign countries undervalue? Because they pay less duty. Profit is made in the duty if they can import at 50 cents on the dollar of the real value of the goods. There is a lot of reasoning in that, isn't there?

But how about the honest importer who puts the real, correct foreign value on his invoice and pays the amount of duty that the law calls for here, while his dishonest competitor only pays half that amount of duty? That is the trouble. There is where the shoe pinches, and every big importer evidently has a corn in his shoe and it is that corn that is being pinched.

Then they say we cannot estimate or appraise some articles of import because we do not know their values. How ignorant we are. We now accept the foreigner's statement. Why not accept our own? Haven't you got more confidence in yourself than you have in a foreigner?

I read a statement one day where a collection of ministers had gathered together in dry weather and prayed for rain, but it was discovered that one of them brought along his umbrella.

Why not have more faith in yourself than you have in the foreigner?

CAN THE PULMOTOR REVIVE BUSINESS?
—Morris for the George Matthew Adams Service.

TRYING TO PUT HUMPTY DUMPTY BACK AGAIN?
Harding in the Brooklyn *Eagle*.

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BANG—AS USUAL!
—Kirby in the New York *Evening World*.

PRESS REACTIONS ON FORDNEY TARIFF

That the tariff advanced by Representative Fordney is not without opposition is shown by these cartoons from the leading metropolitan press. Mr. Fordney believes that this opposition is due to a misunderstanding of the effects of the tariff.

The Exchange Problem

There is another good reason why we should have American valuation instead of foreign valuation. There is the exchange value of foreign money, a most troublesome question for us, to equitably arrive at the correct values, because foreign moneys have different purchasing values in the countries of their origin than the exchange values over here, and it is most difficult for our customs collectors to determine those questions.

Canadian money today has an exchange value in the United States of about 85 cents on the dollar. The English pound, I noticed yesterday, with a par value of $4.86 over there, has an exchange value here of $3.72. The French franc with a par value of 19.3 cents has an exchange value here of between six and seven cents. The German mark, 23.8 cents par value, has an exchange value in the United States, or had yesterday, of .86 of one cent,

but it will buy seven or eight or ten times that value over in Germany. It is most difficult, my friends, for our customs collectors to harmonize the differences in the valuations of those exchanges abroad in this country.

American valuation will fix the valuation upon the gold dollar. Every dollar of our money since 1896 is worth one hundred cents, because it is all redeemable in gold, and we will eliminate those exchange values of foreign money by American valuation. Those are the two outstanding reasons for American valuation.

"Much Misinformation"

Much misinformation has gone abroad about the rates of duty in our new tariff bill. That is a mistake for any man, to misrepresent.

A while ago a young man in my town stepped into a store where the merchant made a specialty of gloves and two or three other articles. He purchased a pair of kid gloves for his mother. The man said, "You better buy all the gloves you want for your mother now before this new tariff bill becomes effective, because that bill will increase the value of French kid gloves from $4 to $7 a pair. You better hurry up."

"Why," he said, "aren't you in error?" "Oh, no, I know what I am talking about."

I made a speech before the Chamber of Commerce two nights later in my home town, and that young man sat by my side at the banquet. I called his attention to the fact that if all the duty imposed in this new tariff law over the existing law were imposed upon kid gloves it would increase the price 12½ cents a pair, $1.50 a dozen over the old law.

Why should it increase the price of gloves to the retailer from $4 to $7? Because some dishonest man has misrepresented to somebody that did not know anything.

When the Payne tariff was passed in 1909, I stepped into a shoe store in my home town to buy a pair of shoes of a certain make that I wear. The merchant said to me, a very dear friend of mine, "Mr. Fordney, I have got to charge you a dollar more for those shoes now than I did before." "Why?" "You ought to know, because of the duty in the Payne tariff law on shoes."

I asked, "Who told you that?" He pointed to a man sitting in a chair, "This man here. He is a salesman for a Massachusetts shoe house who told me that a few minutes ago."

I said to the man, "Did you tell Mr. Dall that?" "Yes." "Why did you tell it to him? You know it is not true, don't you?" "Why no. My house told me that was true." I said, "Why, my good man, we reduced the duty *from* 25 to 10 per cent in the Payne tariff law. Now you either know or don't know that you misrepresented to this man, and if you don't know, you are not competent to talk, and if you do know, you are a damn liar." He said, "Well I resent that strong language." I said, "Then you don't care to be told

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Vanderlip Proposes Great International Reserve Bank

Leader in Banking Thought Launches Plan to Restore European Credit

FRANK A. VANDERLIP started in work as a newspaperman. That was in 1889—thirty-two years ago. By 1894 he had successively—and successfully—filled two important offices; one, as financial editor of the Chicago *Tribune;* the other as associate editor of the *Economist* (Chicago). By 1897 he was assistant secretary of the Treasury; in 1901 he became vice-president of the National City Bank; by 1909 he was president of that bank. He held this last office for 10 years, or during the period of the bank's greatest growth.

Succeeding his meteoric rise to "top-kicker" in American banking circles, Mr. Vanderlip has, in recent years, developed into a commanding figure in international finance. World-bankers have come to look upon him as a leading figure in banking thought; his studies of European conditions since the war ("Political Problems of Europe"; "What Happened to Europe," 1920) have been notable contributions. Mr. Vanderlip's capacity for growth and mental expansion have come to appear almost infinite.

Recently, a few sparse details leaked out of a plan that had been proposed by a "great international banker" providing for re-financing Europe. The plan was said to provide for nothing less than the creation of an International Reserve Banking System which, after the fashion of our own system, would be able to distribute credit equally and without favor over the four corners of the globe. Bankers saw in it a new way 'round the tremendous obstacles reared up by depleted gold resources abroad, an embarrassment of holdings here, and the consequent demoralization of international exchanges and international trade.

Further details of the plan have gradually filtered through. It has become known that the "great international banker" is Vanderlip. A neat summary of the plan has been prepared by the American-Polish Chamber of Commerce in this country. It follows:

"The best news received from Poland since the defeat of the Bolshevik armies, was embodied in a report just received from Warsaw, concerning plans for the founding of a bank with branches in all European nations, subscribed to by American and European capital, as advanced by Mr. Frank A. Vanderlip, the well known New York financier. Mr. Vanderlip has been taking an extended tour through Europe in order to receive first hand information on the best method to finance European enterprises with American capital, at the same time having the money available in the hands of American financiers who will act as a guarantee to the American depositors. His plan is to provide for a $1,000,000,000 gold capital banking corporation, which will be similar to the Federal Reserve system in this country, in that dollar notes will be issued for circulation and money will be advanced to local institutions, which will act as branch reserve banks. Gold is flowing into the United States in an increasing stream. From January first to July first $402,601,000 of gold was added to the United States stocks, being an increase of almost 20% in gold stocks since January first. United States and Poland (gold stock increased 8.9% during the same period) are the only two countries which have materially increased their gold stocks during the past six months. America has become the most prominent holder of gold in the world and consequently America would in all likelihood constitute the majority of stockholders. The Governments of the respective nations, in which branches will be located, are to furnish free of expense, the necessary buildings in which to operate and are to pass no legislation against the free circulation of dollar notes issued by the bank branches, or against imports and exports. They are also restricted from imposing any taxes on the bank and its branches. In order to eliminate jealousies and rivalries from the various nations in which branches will be established, it is proposed to incorporate it through the Council of the League of Nations and to use it as a Supreme Court for the issuance of legal decisions in matters which will arise. This plan, if carried out, will

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Bucket Shops and the Remedy for Them

How the 1921 Model Works — Other Times, Other Schemes—The Reason

By

THE OWL

> **WE hate to take people into the kitchen, but some of the dishes being served up in Wall Street nowadays are so unsavory, that it behooves this publication to show how they are cooked; also to show the ear-marks of bucket shops so that those who are in danger of being or are about to be mulcted may have warning.—Editor.**

IN the past two months or ten weeks a number of so-called brokerage houses, most of them with branches connected by direct wire with their New York City offices, have closed their doors, usually via involuntary bankruptcy proceedings.

Telling it a little more baldly, a number of bucket shops have gone out of business.

It is not likely the proprietors have lost any money. They have learned in recent years to take theirs out as they go along. Then when angered clients or inquisitive authorities become annoying, the "shop" can fail without anyone losing anything but the few customers left on the books.

Usually these few are the small fry, or are the clients who have given up all that can be obtained from them.

Before the "failure" the unmulcted, by various means, have been induced to transfer their equities to another concern, operated by the same crew under entirely different names.

The plan is to keep the clients moving until they are "cleaned," and it is a very successful plan, this 1921 model of bucket-shop operation, all strictly within (the letter of) the law.

Possibly you are being subjected to the "keep moving" treatment right now, and haven't had the least suspicion of it. After reading this exposition of the methods you will do well to scan your experiences and test your broker,

Don't wait until you, too, are "cleaned."

A Strange Fact

It may seem strange that with every legal and extra-legal agency interested in the protection of the security markets bending every energy to the eradication of the evil the bucket shop and bucketing methods are flourishing as never before. But as rapidly as laws are enacted and new repressive guards thrown about the operations of the legitimate exchanges, the illegitimate operators devise new means of carrying on "business." The unwary are still being fleeced and the wicked are waxing fat and fatter with ill-gotten gain.

"In the past three months," boasted one of the so-called customers' men of a well-known bucket shop, "I have brought in over $150,000 in equities and not one of my customers has taken out a cent. The most any one got back was a statement When I get them, I clean them."

This "capper"—to designate him properly—collects 10% of all "equities" turned in to his alleged brokerage firm, another 10% goes to the manager of the crew of customers' men, 15% takes care of the overhead expenses of the place, and 65% is clear profit for the operator, besides what is made in market operations. That, at least, is the way it is figured, for the bucket shop today considers every cut that comes in belongs to it. It is as difficult for a customer to draw down any funds as it would be to induce a Scotch tradesman to adopt the New Orleans practice of giving lagniappe with every purchase.

The Modern Method

Conducting a bucket shop today is not the simple thing it was in the old days, when all that was needed was an office and a quotation board, and it was possible for customers to "trade" in two shares on a 2-point margin. The old-time tales no longer illustrate the operations of the fake brokerage office—such, for instance, as that of the "broker" who exhausted his cash in paying his first month's rent, getting a board set up and arranging for quotations. His first customer "bought" 10 shares of some stock or other, putting up $20 margin. He closed out the transaction in a half-hour at a profit of $5. The proprietor handed him back the original $20 and said, genially:

"Have a seat. There'll be another customer along in probably a few minutes and I'll pay you the other $5 then."

The methods now proving so successful require the expenditure of thousands before any money comes in. But once it's in, it stays.

The 1880—even the 1910—bucket shop keeper would be unable to orient himself were he to enter one of the really modern "shops." That is, if he could get behind the scenes and watch the wheels go 'round. He would find to his surprise that the 2 or 3 point, $10 to $100, order is not wanted; that every order is duly and truly executed; that the confirmation sent to the customer is genuine in that the purchase of 100 shares of Steel, or Reading, or of any other stock is actually made through the broker—frequently a member of the New York Stock Exchange—whose name appears on the confirmation; that the firm seeks out men high in their communities, works them largely over the telephone, and counts as picayune any equity of less than $5,000.

So far as any claim of failure to execute is concerned, the 1921 bucket shop laughs in loud scorn at the authorities. There has been a long procession of them to what they familiarly call "The D. A.'s office" this year, but the District Attorney's office has been able to pin little on them. You can't indict a man for skating where the ice is thin. The District Attorney must have fairly strong evidence that the law has been broken.

Last month the Governing Committee of the New York Stock Exchange found it necessary to adopt a resolution prohibiting any member of the Exchange from transacting business for or with any non-member "engaged in purchasing and selling securities for customers and making a practice of taking the side of the market opposite to customers in transactions for their account."

This was made necessary because the bucket shops have been opening accounts with members of the New York Stock Exchange and have been carrying on margin the stocks their own customers have been carrying with them. At the same time they have had margin accounts in other brokerage houses and have gone short for themselves or, as the Stock Exchange resolution phrases it, they have been "taking the side of the market opposite to customers." A delicate question to decide. How prove that the sale as well as the purchase is not for a real honest-to-goodness client?

This "taking the opposite side accomplishes the same purpose as when the oldtime broker of this type, who frankly applied bookmaking methods to wagering on stock market fluctuations, "took the trade" instead of executing it. Sometimes the old-timer "laid off" his bets just as a "bookie" does when he finds his book getting topheavy. The intention of the old-timer was to pay the bet if it went against him, and it was pretty generally true that when he failed it was because his bank roll wasn't big enough to pay off. "Intentions" are not legal tender. They are good for little more than paving material.

The bucket shop today fails generally because the authorities begin making it so difficult to get new business by interfering with brokerage connections, wire service and other facilities—once the nature of the "shop" is evident—that the operator finds it advisable to "clean" his most promising clients, convert everything possible into cash, transfer the cash to his own pockets, and open up a new place under a new name, with a new tool as ostensible head of the new firm. The operator himself now seldom appears except to pose as a customer. He finds time, of course, to browse around in the back office looking over the books and seeing that no more cash is allowed to remain on hand than is actually necessary to keep things

moving. He is never known to the so-called clients, and outside of the cashier and bookkeepers few of the employes have a suspicion that he is conected with the concern. His name as a rule is not mentioned, even during inner-office conversations, an initial or a fictitious cognomen being employed to designate him in conversation.

Real "Master Minds"

Much—overmuch—has been written and spoken in the last few years of "master minds." Undoubtedly there are some. But the number of them is fewer than most readers of the daily sensational press would believe.

In the bucket shop brigade, however, there are today two or three master minds in the real sense. They are not known, not well known at any rate, outside the clan. The District Attorney's office knows them, but "hasn't got the goods yet." The important investigating agencies know them, but are somewhat wary of giving out their information. There are libel laws and one must be able to prove his assertions. One of the most important of these gentry has had a hectic career, yet moves blithely along establishing new firms every few months and letting the others go through the agony of bankruptcy—with himself many miles away so far as evidence of his connection with them is concerned.

This particular master of the world of bunco appeared a half-dozen years ago as the proprietor of a one-horse brokerage and promotion office. He had an office boy, a stenographer, and an assistant whom it pleased him to term a partner. After a few months the promotion with which he was connected blew up with a loud report, and the "broker" made his exit from Wall Street with something like $25,000 more than he had started with three months before. A few weeks or a few months later he appeared in the court records in a case growing out of an alleged badger game. Then he exited once more only to make his appearance as one of the associates of another "master criminal" concerned in the thefts of several millions of dollars in Liberty Bonds, and mentioned also in connection with the robbery of runners for messengers of brokerage houses and banks. The indictment against "our hero" was dismissed for lack of evidence, although his accused associates were convicted—the principal ones, anyhow. A few weeks after his indictment, but before the case came to trial, this bucket shop operator appeared as a silent partner of a brokerage house that flashed across the lower Broadway sky and then went out, to the sorrow of the firm's clients and merchandise creditors. Before this house "blew up," however, the wily operator had induced one of the partners to withdraw and open up another brokerage office under an assumed name. When the first house failed, the second one had the cream of the assets, including the customers who were not ready to be cleaned and required nursing a few months longer.

Naturally, this second house closed eventually, helped by the bankruptcy court, but in the meantime another house had been opened and some of the better business had been transferred to it. This third firm ran afoul of the authorities of one of the exchanges and was "reorganized," the business being sold out, ostensibly, to entirely new interests. No real change took place, a new tool having been hired to head the firm. This fourth organization conducted a vigorous campaign for business, mainly obtaining it from the clients of the second and third firms already mentioned. Two weeks ago it closed its doors, and its principal cappers and telephone salesmen are operating from another "house" established three months ago. The old "Boss," however, has not yet appeared in the operation of this fifth brokerage concern. It is asserted he is not "in" on it.

It was a part of this "buccaneer's" program to establish his new firms and then have them telephone the clients of the other firm attacking its integrity. The salesman who is telephoning asserts he had been employed by the other firm, but had left when he learned of its practices. The telephone salesman plausibly explains his familiarity with the victim's account by saying that the account was one that had been entrusted to his particular care by the management of the other firm. Usually he succeeds in getting an order transferring the account to the new firm. In this way the victim is frequently gouged out of several times what he would have given up to one firm, and, besides, can be nursed along to where he is really worth plucking. When his former brokers "fail," the telephone salesman calls up the victim and gives him the news. This establishes the new house as "square" in the victim's regard.

There is no reason why it should. But it does. It's human nature, probably.

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A Few Exhibits

How the New Model Bucket Shop Uses Legitimate Brokerage Facilities to Enable It to Cover Up the Trail

We have before us—

TWO confirmations from a member of the New York Stock Exchange. The confirmations are dated May 4, 1921. They are to a customer—a bucket shop which recently closed its doors. The confirmations show a purchase of Utah Copper at 54⅝ and sale at 54⅜.

Three confirmation slips from another New York Stock Exchange house to the same bucket shop. One slip dated July 28, 1921, shows a purchase of 100 shares of Mexican Petroleum at 103⅝.

The second slip dated July 27, 1921, shows a purchase of 50 shares of General Asphalt at 52⅛.

The third slip dated July 28, 1921, shows the sale of the 100 shares of Mexican Petroleum at 105¼ and the sale of the 50 shares of General Asphalt at 53⅜.

Two confirmation slips dated July 28th, 1921, from a third firm, members of the New York Stock Exchange, showing purchase for a bucket shop of 100 shares of Studebaker at 76½, and showing its sale at 78.

Two confirmations from the same member of the New York Stock Exchange, showing the purchase and sale, the same day of 100 shares of American Woolen at 72⅝ for the same bucket shop.

Two confirmation slips dated September 16, 1921, from a member of the Consolidated Stock Exchange to a bucket shop which has recently suspended. The first confirmation shows the purchase of 7 lots of stocks at various prices, while the other confirmation shows the sale of the same identical stocks. The difference in price shows the bucket shop a loss, including commissions of $235.54. It is curious to note that in the column wherein the Consolidated Stock Exchange member professes to report the name of the broker, the stocks were bought from, or sold to, the same name appears in both purchase and sale.

For example, 100 shares of Ajax Rubber was bought from, and sold to the same broker. 100 shares of Kelly-Springfield appear also to have been bought from and sold to the same broker. There are other instances on the same confirmation.

Confirmation—name of broker torn off, but text of notes suggests membership in the New York Cotton Exchange. Confirmation is dated September 7, 1921. It shows a purchase of 100 bales of December cotton at $21.70 and the sale of 100 bales of December cotton at $21.38. In this instance, the brokerage house did not even bother to use confirmation slips, but reported the purchase and sale of securities to its bucket shop client on the same slip.

Six confirmations to a bucket shop from a brokerage house which has no Exchange affiliations of any kind. These are dated September 9 to September 14, 1921. They cover the purchase of 300 shares of Pan-American Petroleum at 50 and their sale at 51; the purchase of 50 United Drug at 50 and their sale at 48; the purchase of 200 Studebaker at 77½ and their sale at 78. The confirmation used by this house merely says, "Upon your order we have bought" instead of "have bought for your account" and does not give the name of the broker with whom the deal is supposed to have been made. It makes it impossible to verify if even the machinery of selling has been employed, as unless another broker's name is given the report cannot be checked.. Access to this broker's books, probably possible only under legal duress, might give the rest of the trail. For all the confirmations tell to the contrary (this is more than a suggestion) the confirmations might mean "We have bought from you" and "We have sold right back to you.'

Foreign Trade

We Will Keep Our Foreign Trade—We Must!

First Necessity Is to Develop an "International Mind"—Details Should Not Lead Us Astray

By **BENJAMIN SOBY**

Editor's Note: Here is a refreshing angle on the foreign trade dilemma—a plain, man-to-man talk, without statistical garnish or veneer. The writer is in constant touch with foreign markets in his association with the Westinghouse Electric International Co., and is equipped to talk in facts.

THERE is an old saying, "He who bloweth not his own horn hath no one to blow it for him," which explains a lot of things we cannot otherwise account for. We read very frequently where some person, more or less widely known, makes a statement. As a rule the statement is a note of optimism. The writer's inspiration springs from a narrowed viewpoint, a selfish opinion, or a bit of news from some one part of the world, which distorts the mass of facts.

Taken by and large, we don't like pessimists. We don't publish statements which look on the dark side of things. It wouldn't do at all. The influence of pessimistic writings is demoralizing. We see a little of it in print, but for most part it is scarce copy and sounds the warning that "bogey man will catch us if we don't watch out"; meaning that Germany, England and the rest are hard on the trail of trade in all quarters of the globe. This is true, but so are we—don't overlook that fact even if in your next mail, Mr. Business Man, you receive a letter which opens with the illuminating information, "What this country needs today is foreign trade"—just as if we didn't know it, and then winds up with the reminder that "You can secure foreign trade by advertising in the Blankety-Blank Journal." The mail is literally flooded with this sort of stuff. We suppose it is necessary to have some "horn blowers"; they are essential to keep up the morale.

Business Is Bad

Business as a whole is bad. Radical, you say? Very well, have it your way, but as they say in the vernacular, "There's no use kidding ourself." There are natural laws which govern all things and anyone who will give a little thought to economics will find that when a country changes from agriculture to manufacturing, it must have some outlet for surplus. Up to the beginning of the war we had been a self-sustaining nation—the manufacturing and farming were pretty nearly balanced. True we exported, but we also imported. During the war practically all Europe ceased having any surplus. In fact they were compelled to import to meet their needs. Result—manufacturing made great strides in America. Came the end of the war, millions of persons who had been making things other than necessities, produced everyday commodities in such quantities as to be almost beyond belief. For a while the surplus could be absorbed, then the natural law of supply and demand got busy and "blooey" the bubble bursted. Thousands upon thousands of dollars worth of merchandise were left unclaimed in ports of entry all over the world. Prices began to decline. Gold had been shipped into the United States until there was practically speaking, no more to ship. And here we find ourselves today under-producing; stagnated, exchange all out of balance, thousands out of employment, winter coming on, etc. Altogether not a very attractive picture. Not so radical after all. Remember what the photographer said to you when you called him down about the picture that didn't flatter you? "The camera can only see what is before it."

There Is Hope

The sun usually shines again after the storm, at least it has been carrying on this way for several centuries and then some. We find the following among the clippings in our file:

"Says Dr. Felix Adler: 'We are going through the most trying period of human history.' The words have a familiar ring. Adam remarked precisely the same thing to his weeping consort, when the garden gates closed after them. Belshazzar, reading the handwriting on the wall, was heard to murmur by those nearest him, 'We are now going through the most trying period of human history.' A few minutes later he was seized with acute indigestion, which a modern diagnosis would pronounce ptomaine poisoning. Moses made the same observation during the passage of the Red Sea. Noah said something to like effect while waiting for the dove's return. Martin Luther thought as much when he flung the ink-bottle at the Devil. Socrates, driven out of his shack by Xantippe, remarked as he dodged a flying saucepan: 'We are now going through the most trying period of human history.' Marat, soliloquizing in his bath-tub, got as far as 'We are now going through the most trying——' when his reflections were cut short by Miss Corday. Cheer up! 'twas ever thus."

Things looked pretty blue in 1865, just after the close of the war. Proportionately things were higher in price then, than the highest peak of 1920. Yet in 1872 the cost of living was the cheapest we have ever known. We all suffered a bit in 1893, again in 1920. The panic of 1907 we can all remember. Then the business depression in 1914, just before the war, and now we have it again. It seems like a cycle of sevens.

It can be easily seen, however, that this condition of things is necessary. The lack of such an arrangement would soon mean extermination. Big fish eat little fish; if there ceased to be little fish the big ones would perish. As a forest grows the hardier trees gradually smother the weaker until in due course the massive trees are naturally destroyed or are cut down, and in either case the countryside is devastated.

Labor Is the Solution

Everything reverberates to labor. Money is mere expression of so much labor. Fifty billions of dollars' worth of destruction is the toll of the war. The only way under the sun that this can be paid is by labor. Were, by a miracle, a virgin gold mine uncovered that would produce fifty billions in gold over night, it would not change conditions one iota. The decreasing value of gold, because of its commonness, would completely offset any permanent effect it could have on the situation. Constructive work must be done to the equivalent of the value destroyed. The pendulum must swing the other way to create the necessary balance.

How does the little nursery rhyme start? "Tommy Tucker calls for his supper," and then ends like this, "How can he cut it without any knife? How can he marry without any wife?" We all want to work but there is none and nobody is buying more than actual necessities because there is no extra money with which to pay. Don't forget, however, that this is an international condition, not a national one alone. The whole world is out of whack. Price recession has been world-wide, the United States has led, and this country is farther advanced toward "normalcy" than any other. Trade possibilities with foreign countries will be in proportion as they approach a price condition similar to ours. Price conditions are governed in great measure by labor, regardless of arguments to the contrary.

We have seen, or at least we hope so, that when a national surplus is created it is essential to have a foreign market. It has been shown that only so long can gold be received in exchange for what we have to sell and also that labor is the solution. Let us go a little further into the subject. Before we can export in any great volume we must get rid of the gold, spread it back over the countries from

which it came. This can only be accomplished by buying such products of the labor of these countries as we can make use of. In other words, to export we must import—the exchange must take place. There is no question but that the government has been striving to help in this, the Edge Law being one evidence of it. The United States forms the key to the whole situation. A recent cartoon appearing in *Cares y Caretas,* published in Buenos Aires, gives expression to this thought:

"Italy has recognized that the American dollar is king of the world by accepting it instead of the pound sterling as the standard by which gold values are measured. The American dollar earned its position. It now marches into Europe as a Roman legion once marched. It is the symbol and the instrument of a young, strong nation. It is the expression of the vitality of a young giant. Europe may say that the young giant is a barbarian. He *is* clear-eyed and has a long stride. If he uses ordinary care in watching his step he'll not be in anybody's dust. In watching his step he'll be strong but not rough. He will not invite a group of nations to get a gang together and try to pull him down. He will not try to make everybody "mad at him" at once. They are all pretty mad now, but they need not be infuriated into action. The eagle is boss, but it can be an easy boss, not so arranging its affairs that it hasn't a friend in the world, and not being so easy that it hasn't an enemy."

There is no question but that with our "Yankee Ingenuity" we will eventually master the problem. We usually accomplish what we set out to do and this will be no exception.

We started out to write an article on Foreign Trade and here we are almost into politics. Although politics may enter into our consideration its place is only as a contributing part of the discussion. The subject in hand says we will keep our foreign trade—we must. The editor wouldn't let us say in the title what we wanted to, he said it didn't look dignified, so we'll sneak it in here. Just change the words "we must" to "dog gone it we have to," and you get the full meaning. And since we are compelled to keep this trade we must of necessity look the whole matter squarely in the face. We must act in accordance with the rules of the game, consequently the first essential is to know the game, and it has a lot of angles. You have heard the fable of the blind men and the elephant; one said the elephant was like a tree; another thought it was like a wall; and the impression of the third was that it was like a rope. Each of these men was right as far as he went, or was able to go, into this subject, but how far from the true knowledge they were! So it is with foreign trade. A little knowledge of it will distort our ideas and give a mental picture all out of proportion.

Necessary to Think Internationally

Of primal importance is the development of an international mind, the ability to think of the world as a whole. Just as we think of the United States as a country. We know it is divided into many states, counties, towns, etc., each with their own peculiarities, yet the mental picture is that these are so many component parts of the whole. They have arrived in our minds at their proper locations and in relative proportion to their importance. China, Argentina, Norway and the Transvaal are but parts of a world which must be brought in our thinking into their proper relation to the whole world. It has not been so many years since, to those of us in the east, west of the Mississippi was a far country. Travel was difficult. Many days were required to reach points that are now easily accessible. Now our minds more readily grasp the distances between points. As Emerson puts it, "a pond is no larger than its shores," the better we learn the dimensions the smaller it seems to us.

Not only must we think internationally in a geographical sense, but what is more important, we must think of the emotions which stir the peoples who inhabit these countries. A belief or a feeling which

GOOD WILL!

That the manufacturers in the United States are building confidence in American-made goods is evidenced in this group of advertisements clipped from recent issues of newspapers published in widely separated parts of the world.

has a practical effect on the conduct of great masses of men may be very false and very mischievous; but it is in every case a great and serious fact, to be looked gravely in the face. As E. A. Freeman in his essay, "Race and Language," says, "Men who sit at their ease and think all wisdom is confined to themselves and their own clique may think themselves vastly superior to the emotions which stir our times as they would doubtless have thought themselves vastly superior to the emotions which stirred the first Saracens or the first Crusaders. But the emotions are there all the same and they do their work all the same. The most highly educated man in the most highly educated society cannot sneer them out of being."

We may not agree with these emotions but then these people do not agree with us. To the Christian the Mohammedan is a heathen, but don't overlook the fact that to the sons of the prophet we are infidels. We must open our minds and see the other side. We must catch the other fellow's viewpoint. We cannot understand why these things are as they are mostly because we have only scratched at the surface. We must learn to appreciate patriotism that is founded on centuries upon centuries of development. We must strive to comprehend manners and customs that have been handed down from father to son through generations from remote times and not pass them without due consideration as to the reason for their existence. Because people do things the reverse of our way we say they are wrong. Certain customs which are followed by the Japanese are the opposite of ours. Yet when investigated what to us at first seems ridiculous is in reality the most sensible. The Westinghouse Electric International Company recently received from their agents in Japan a list to which certain publications were to be sent. One of these names read as follows:

Mr. B——— B———
Ichijonoborunishiiri
Karasumaru-dori
Kamikyoku
Kyoto-shi
Japan.

As there were many of these names and addresses, ways and means were immediately considered to reduce the labor involved in the stenographic work. A Japanese employee was called into conference and he very politely gave the information that *all* was essential. The first line is the name; the second, the designation of the building; the third, the name of the street; the fourth, the section of the city (Kyoto is divided into nine sections). The fifth line is the name of the city and the last line, the name of the country. We were interested in learning how our Japanese friend would address letters at home—whether or not all this detail would be followed. We secured a pencil and ink and asked him to address an envelope for us just as he would do it in Japan, and the facsimile reproduction shown in the middle column is the result.

The translation reads:

Tabata—Tokio—fuka
Inawashiro—Suirioku—Kabushikikaisha
Hendensho
Mr. B——— B———

Tabata is a name of a town near Tokio (fuka means near). The word "Kabushikikaisha" means company and the two preceding words in the second line is the name of the company. The word "Hendensho" means "sub-station." Taken together, the letter is addressed to a gentleman in a sub-station of a company located in Tabata, near Tokio.

Notice not only do the Japanese read from right to left, which is not important, since we could do the same had we been so trained, but they reverse the entire arrangement. They start with the name of the city, then the section, and so on down to the man's name. This seems backward to us, but just think a moment. The first and only bit of information the man in the post office needs, in the first example, is the name of the country—Japan—and we in our arrangement of things put this last.

We Have Much in Common

Although we disagree perhaps in details, if we look from the opposite side, which is, by the way, the proper starting point, we find there is much in common among the races of the world. As a parallel let us diverge for a moment. It is possible to intermingle the pollen of different varieties of Dahlias and produce a seed that will grow and eventually bear flowers unlike the progenitors; still all Dahlia plants have tuberous roots, they all have stems, leaves, flowers and seed. In fact, all plants are pretty much alike that way. They all have the same component parts. They all require sunshine and rain. They grow and bear fruit. How little then do the varieties of the human race differ in the big essentials. And besides, we all have our likes and dislikes, loves and passions, fears of trials and tribulations, a yearning for ease and comfort. We are all more or less proud, jealous, envious, avaricious. These characteristics are as old as Time. They are not any more peculiar to any race or nation than they are to individuals right here in the United States, and it is because of these characteristics that the people spend their money.

東京府下田畑
猪、代水力株式會社変電所
安藤嘉助殿

To illustrate this commonness of characteristics, the Latin as we know him the French, Spanish, Portuguese and Italian, are clothed with dignity that is a barrier to approach from strangers or from the lower stations in life, meaning class distinction. Yet we also know the carnival season of three days each year, common in all Latin America, Spain, Italy, Portugal and France, when with mask, confetti, streamers and all sorts of fun producers the whole population becomes akin. As we write, a native paper from Madras, India, arrives, in which, among other advertisements, is one depicting our beloved comedian, Charlie Chaplin. And in the same advertisement is Dorothy Dalton. We have here two distinct types of players with two entirely different appeals. Take the advertisement clipped from a paper published in Sao Paulo, Brazil. Here we have Houdini with a thriller, Emmy Wehlin in a comedy and Gladys Brockwell in "Love." Were these two ads in English they might be from your evening newspaper and for your favorite movie.

We Must Fight

"Where there's a will there's a way." The foreign trade problem is paralleled by the individual's fight for existence. And it is a fight! Don't overlook that fact! It requires the marshalling of the best of our commercial forces. The best brains of the country are none too good to cope with the situations which arise. Organizations are necessary to meet every contingency. Old markets must be analyzed, new ones created. Century old veneers must be broken through and new standards of living set up. Are we doing this? "We are!" comes the answer from evidences of all kinds. American advertising, the herald of future events in the commercial world, is slowly but surely blazing the trail in a direction never before traveled by any nation in its quest for foreign trade. This advertising is headed directly at the root of the matter. That it is having effect is substantiated on all sides. Like the yeast in the dough it is working gradually until the whole is leavened. There are indications in every direction that we are becoming better understood by our foreign friends. No longer do we read the stories of how we are known as "Yankee pigs," of how we care little for our promises, of how we are trying to cram our wares upon a non-receptive population, of our poor packing, of the poor quality of our merchandise. True we do hear of the exceptional case and this mostly through some "horn-blower" who is seeking personal publicity. But what of the millions of dollars of merchandise we are shipping which reaches its ports safely, delivered to the customers and everybody is satisfied? We don't hear so much about this, yet it forms the evidence that there are hundreds, yes thousands, who are diligently plying their trade, "sawing wood and saying nothing," putting the leaven in localities all over

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How Exchange Rates Can Be Stabilized

E. F. Davies, Long Experienced in International Finance, Suggests Plan

E. F. DAVIES is the managing director of the Banco Nacional Ultramarino.

During the war, Mr. Davies acted in the capacity of financial adviser to the British Government.

He was formerly foreign manager of the London County, Westminster & Parr's Bank, Ltd., of London.

The institution with which Mr. Davies is now associated—the Banco Nacional Ultramarino—has 8 branches of its own in South America, Africa and the Far East.

Mr. Davies just recently arrived in America after a visit to the numerous branches of this institution throughout South America, as well as to Spain, France, Holland, Germany and the Scandinavian countries.

This record more than qualifies Mr. Davies, certainly, to speak with authority on matters of international finance. Therefore a plan which he has devised for the stabilization of foreign exchange deserves careful attention of readers of THE MAGAZINE OF WALL STREET. Says Mr. Davies:

"A great many plans have been proposed to enable necessitous countries in Europe to solve their exchange problems, but many authorities in the large creditor countries usually preface their plans with the remark that such countries must first balance their budgets, stop the printing press and reduce government expenditure.

"These theoretical ideas are excellent and it must be apparent to all that if debtor countries in Europe could do that, there would be little need of outside help and only minor difficulties, as the exchange position is merely reflection of the economic position, that is, the effect and not the cause.

What Davies Suggests

"The question of the day is, 'How can debtor countries improve their economic position and buy freely again in the markets of the world?'

"Firstly, they must be helped to balance their budgets and reduce expenditures, as once they have balances their budgets and their exchange will improve, facilitating their purchases abroad.

"Why is it that they cannot balance their budgets?

"The adverse trade balance means that there is more demand for foreign currencies than the market supplies, consequently the debtor countries find their exchange always depreciating and the depreciated exchange increases:

(a) the cost of living;
(b) the cost of government services;
(c) the cost of all imports.

"In order to meet the increased expenditure the printing press is resorted to, which still further depreciates their exchange by creating lack of confidence.

"This vicious circle makes it impossible to balance budgets.

How to Balance Budgets

"Is there any plan whereby necessitous countries can be helped to balance their budgets?

"This question is answered," continues Mr. Davies, "by finding a solution for rectifying the adverse trade balance.

"In several countries the adverse trade balance can be rectified by loans with the certainty of repayment at maturity.

"If the amount of such adverse balance could be supported by foreign loans for such a period as would permit a debtor country to increase exports and balance imports the exchange position would be quickly rectified.

E. F. DAVIES, O.B.E.
Managing Director of the Banco Nacional Ultramarino

"A foreign loan should be made to such countries representing the amount of adverse trade balance over the necessary period, which may be in some cases three or five years only.

Effects of the Plan

"Such a loan would immediately relieve the situation by eliminating the excess demand for foreign currency and the exchange would soon improve thereby having the following effect:

"(a) As an excess demand for foreign currency has an accumulative effect and unduly depreciates the domestic exchange in the plan suggested would also have an accumulative effect in improving the exchange.

"(b) The improving exchange would force out the foreign moneys hoarded abroad and still further help in appreciating domestic exchange. Many people in necessitous countries have hoarded large amounts of foreign money due to the large profits they saw accumulating daily by the continuous depreciation of their own currency.

"(c) As the exchange improves the adverse trade balance expressed in the money of the debtor countries will become less and less; this will (1) reduce the cost of living; (2) reduce the government expenditures at home and abroad; (3) reduce the amount of notes in circulation. As living would become cheaper there would not be the great demand for notes there is today and as the demand slackened it would also draw out the large amount of hoarded notes which would be paid into the banks and eventually the state bank; (4) render easier the balancing of budgets.

"In this way the vicious circle that an adverse trade balance under present circumstances creates is broken and the economic life of the country lends itself more easily to be straightened out.

Making the Loans

"How would the loans be made?

"The loan or loans should not be paid in cash but in raw materials and merchandise to help restore the life of the country so that the proceeds of the loan would only be used for necessary productive purposes.

"The whole world today is suffering from a lack of confidence and before confidence between merchant and merchant can be restored there must be confidence between governments.

"Several countries with depreciated currencies have the necessary values in their countries and in some cases colonies, for putting themselves on a proper basis ultimately, but loans are urgently needed in the transition stage. If loans are not forthcoming, creditor countries will feel the effect as much as debtor countries by increased unemployment, etc., as no country can stand alone today.

A Business Proposition

"The majority of necessitous countries look to the United States of America and Great Britain to aid them in their temporary difficulties, not from a charity viewpoint but from self-interest. European countries want to buy American and British goods, but America and Britain must make it possible for such purchase to be made.

"It is a business proposition but the longer it is delayed the more difficult will be the solution.

"Another question that is of vital in-

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Money, Banking and Business

About Banks and Banking

Manufacturing Company Inquires Concerning New Credit—Original Underwriting Houses

SINCE the last issue of THE MAGAZINE OF WALL STREET, this department of THE MAGAZINE has been called to the attention of a number of bankers and business men. There was general approval of the department, on the grounds that it would supply a clearing house for information on all phases of banking activity and thus work toward a better understanding of what banks can and cannot do for business men and investors.

Probably the most interesting inquiry addressed to the department during the fortnight came from a Western manufacturing plant whose officials were in search of ways and means to obtain new credit facilities over and above those offered by the local bank. The letter follows, verbatim:

Bank Editor, THE MAGAZINE OF WALL STREET:

Sir:—The writer noted with pleasure the article you have in the October 29th issue pertaining to banks and banking, and we are taking this opportunity of putting our problem before you.

Our current assets will take care of our current liabilities, which includes notes payable to the bank and officers of this company. As the banks only allow 50% of the amount of quick assets, and we have already received our full quota of credit from our bank, we are unable to secure a further loan on this basis.

We believe, however, that we should be able to secure a loan from some institution on our equipment, which consists of machinery, tools, dies, shop fixtures, office furniture and fixtures, which has been appraised at $56,000 by ——— & ——— Co., of Chicago; also the equity we have in real estate which amounts to $32,000, making a total of $88,000. The purchase price of our factory was $80,000, and at the present time we can dispose of same for $110,000, having received a tentative offer for this amount. However, we will not consider the increased valuation of the property.

Will you please advise us, who will negotiate a loan of approximately $25,000 for one year on the above mentioned assets? We believe that 51% of the stock in our company should be considered sufficient collateral to guarantee payment of loan when due.

Thanking you in advance for the above information, we beg to remain,

——— Manufacturing Co.

The situation in which this manufacturing company finds itself is outside the field of commercial banking, in the belief of this department. A bank would not be likely to advance money upon such security as that offered, because that security—machinery, tools, dies, etc.—is not of a sufficiently liquid nature. Neither would banks, we believe, loan money on real estate, in the circumstances.

However, this company could probably secure expert co-operation in the matter of its loan from some organization which makes a practice of loaning on mortgage. The proposition is a mortgage proposition, in our view, and, although rather small, might be found to be in the field of such a concern as the U. S. Mortgage & Trust Co., whose main office is in New York City. A line addressed to this company, and others similar to it, might be productive of results.

> **FOR YOUR INFORMATION**
>
> ***This new department of The Magazine of Wall Street is inaugurated to help you find out—***
>
> ***(1) How banks can help you in your financial transactions.***
>
> ***(2) What banks are best equipped to perform specific services.***
>
> ***(3) How bank stocks compare with other securities as investments.***
>
> ***The department will gladly answer any inquiries on these points addressed to it by readers. Make your queries brief and to the point, and be careful to address them to the***
>
> ***BANK EDITOR***
>
> ***The Magazine of Wall Street***
> ***42 Broadway,***
> ***New York City***

In passing, it is worthy of note that this department discussed the inquiry quoted with a number of bank officials. In every case, the conclusion was drawn that this was a mortgage proposition. One banker, in particular, made a rather keen suggestion which we reproduce, in effect, as follows:

"Here is an opportunity, in my view—and without knowing the full particulars," said this banker, "for a local institution. It is surprising that the possibilities contained in business of this sort are not more fully appreciated in the towns and small cities where they arise. I should think, assuming the company has a good reputation in its vicinity and that it is doing a good business, that it would be a comparatively easy matter for some local investment house to arrange for funding the loan this manufacturing company desires, and marketing the bonds in the localities where its reputation is known.

"Local institutions," continued the banker, "frequently overlook opportunities that lie at their doors in their search for opportunities far afield."

It might be noted that, if the manufacturing company were to fund this loan, after the fashion suggested, a longer term than one year might well be provided in order to scale down the interest rate that would have to be paid.

Finally, if the proposition as explained interests any organization with which we do not happen to be in touch, we should be glad to bring the principals together.

Wants Underwriting Connection

A letter received by THE MAGAZINE before this department was instituted deserves place here for its general interest. The letter is from a trust company located in Denver, Colorado, and says:

"We desire a New York connection with an underwriting company which originates the original securities and handles high-class securities which would justify a trust company to recommend same to their clients.

"The securities our clients demand are of a conservative nature along the industrial lines and draw from 7% to 8% interest.

"We have an organization that we wish to be kept busy on such securities.

"Therefore, we ask if you will direct us to two or three concerns that would be a proper connection for our company and who desire a western representative.

"The ——— Trust Company."

We, of course, are not qualified to say that a connection of this sort would be agreeable to the Guaranty Co. (Guaranty Trust), the National City Co., or Kuhn, Loeb & Co.—all of this city and all original underwriting houses. But we would advise our correspondent to get into communication with them. We suppose their interest would depend largely on the scope and nature of the ——— Trust Company's clientele and its distributing facilities.

Financing Business

A reader interested in the theory of banking asks for a brief analysis of the part banks play in financing business. Which gives us a good excuse for publishing the following excerpt from "A Great American Bank," an excellent book-

let recently published and copyrighted by the National Bank of Commerce in New York:

"The fundamental service of a commercial bank is the financing of producers and distributors of goods for their current operations. This is done by means of credit, ultimately based on gold, and constituting an order on a portion of the actual physical wealth of the country. A bank is able to accumulate a reservoir of credit, and through the confidence which business has in the skill and integrity of its management, to direct it into those channels where it is needed to facilitate the business of the country. It is thus possible to place at the service of industry not merely the bank's own financial resources, but also to employ in a similar manner for others their resources not otherwise engaged."

National City Bank

An Excellent Investment

The National City Bank is one of the oldest and strongest financial institutions, not only in this country, but in the entire world. This bank conducts a practically universal banking business in all its forms. It has, in addition to its domestic branches, many foreign connections. While no formal statements about the foreign end of the business have been issued it is a probability that losses were taken in connection with this business. However, this was an almost universal feature of the foreign banking business during the past year and it may be assumed that with its conservative management the company suffered less in proportion than other institutions engaged in similar lines.

The capitalization is $40,000,000 in $100 par value stock which was increased from $25,000,000 in August, 1920. Shareholders were given the right to subscribe to three shares of the new stock for every five shares held. At one time the rights were quoted at 107 and never in their term did they sell lower than 87. The stock now sells at about 309-315 (bid and asked price) which nearly corresponds with the highest price of the old stock.

Regular dividends of $16 a share are paid on the stock in installments of $4.00 quarterly. In addition, an extra dividend of $1.00 quarterly is paid on the stock. Shareholders of the National City Bank are entitled to dividends declared payable by the National City Company. At present these dividends amount to $2.00 a share so that the total return received by National City Bank shareholders amounts to $22 annually per share. At a price of, say, $310 a share, the stock yields about 7.10% which is a satisfactory return on this class of investment.

The bank is under the presidency of Charles Mitchell who has acquired a reputation for being one of the most brilliant and progressive bankers in the country. Under its present management the bank may be relied upon to carry on its highly creditable record.

Chatham & Phenix National

A Strong Institution

The Chatham & Phenix National Bank is one of the best and most conservative banks in the city of New York. This institution practically confines its activities to the metropolitan district and its business is largely concentrated on commercial banking of which it is a leading exponent. While the accounts of the bank are not individually very large, at least in comparison with other institutions engaged in the same field, it has a very large clientele made up of diverse commercial interests.

The management is excellent and highly skilled in the business. With its business concentrated in New York it is in a position to easily watch every account and thus escape losses which must ordinarily be incurred by similar institutions whose business is more wide-spread.

The Chatham & Phenix National is the result of a slow and steady building up through the absorption of other and smaller banks in the same field. It has carried on this policy for a number of years and will probably continue to expand by virtue of this method.

At the end of last September the book value was $224 a share which was an increase from last year's figure of $213 a share, after payment of dividends. The capitalization consists of $7,000,000 in $100 par value stock and the surplus is $8,682,000. At a price of $235, the buyer has to pay only $10 a share for good-will above assets which is a very low figure for a growing and important commercial bank.

The bank pays dividends of $16.00 a share on the stock and at the present price the return on the investment is equivalent to 6.8%. This return should be considered satisfactory by those interested in conservative investments. The stock has a very high rating among issues of its class and there need be little fear of losing money in this investment at the price.

Chemical National Bank

A High-Grade Investment

The Chemical National Bank is one of the leading commercial banking institutions in New York City and does its business mainly with the dry-goods trade. The Chemical National absorbed the Citizens National Bank May, 1920, and the result of the combined business has been to give this institution an almost unparalleled prestige in its particular field. The management is very strong, able and conservative.

A feature of Chemical National's business is the exceptionally large size of its individual accounts in which respect it differs somewhat from the Chatham & Phenix National, whose accounts are smaller on the average. Another contrast between these two banks is that the Chatham & Phenix does a mixed commercial business whereas the Chemical National confines its business largely to the mercantile field such as the dry-goods trade, etc.

The bank is capitalized at $4,500,000 and has the enormous surplus—for its capitalization—of $15,191,000, thus accounting for the relatively high price of the stock. This undivided surplus will probably be distributed from time to time to shareholders in the form of rights to subscriptions to new stock or in extra dividends. The stock is quoted at 485-500 and pays $24.00 a share in dividends. At this price the yield is less than 5% which is certainly not attractive even for a high-grade investment. However, it is well to take into consideration that distributions of the sort referred to above would very materially increase the rate of return on the ininvestment and accordingly accounts for the discrepancy between the yield of this stock and other bank stocks. The book value is estimated at about $439 a share compared with $429 last year.

At the present price of the stock it is selling about 100 points lower than at the time the merger between this bank and the Citizens National Bank was effected. This comparatively large decline was not due to any inner development in the bank but to the general decline in bank stock. At this price it seems exceptionally attractive for investors who are in a position to waive considerations of yield at the present time in the hope of a higher return later.

Guaranty Trust Co.

Some Wide Fluctuations but Position Sound

The stock of the Guaranty Trust Company has had some remarkable price swings within recent months, due to a combination of reasons. Bank and trust company stocks swing widely at times because their floating supply is limited, and the market is not stabilized in the sense that bidders are always present at a price. In the case of active listed stocks, with the public and "pools" ever busy to buy and sell at prices, big swings—in the case of investment issues—occur without sensational movement as a rule. Guaranty Trust has the distinction of selling well above 300 and below 150 this year, and

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Quotations of Active Bank Stocks

American Exchange National	232-240
Chase National	270-278*
Chatham & Phenix	230-240
Chemical National	480-490
National City	312-317
First National	850-875
Hanover	800-812
Irving National	180-185
Mechanics & Metals	307-312
National Park	395-402
Seaboard	230-240

*Old stock, rights on.

That Income Tax

Provisions of the Proposed New Revenue Act Analyzed and Explained

By LYLE T. ALVERSON

THE proposed new revenue act contains many provisions of peculiar interest to readers of this MAGAZINE. Not the least important is that part of Section 214 denying to non-professional investors and traders reduction of taxable income on account of trading losses, where securities sold at a loss are within thirty days reacquired in whole or in part. Briefly, **this section provides that no deduction from gross income shall be allowed for any loss sustained in the sale of stocks or bonds by a person not engaged in the purchase and sale of securities as a trade or business, where the seller within thirty days after the sale reacquires identical securities by purchase.**

The proposal of this provision is undoubtedly due to the clamor made last year concerning so-called income tax evasion of investors and traders by sales of their holdings to register accrued losses. It is probably true that such sales occurred and in some volume, but it is questionable whether the situation warrants the remedy proposed.

Mr. Lyle T. Alverson, writer of the accompanying discussion of Income Tax problems, as presented by the proposed new Revenue Act, is a member of the Bar of the District of Columbia, was recently an attorney in the office of the Solicitor of International Internal Revenue, and author of "American Income Tax Cases." He will prepare similar discussions to appear in future issues of The Magazine. Mr. Alverson is ready to answer inquiries on all matters pertaining to Income Tax, either by personal letter or through these columns.

Under existing law, taxpayers who buy property at one price and sell it at a lesser price may deduct the loss sustained from gross income when computing net taxable income. The only restriction is that the purchase and sale must be actual and bona fide—that the risk of a fluctuating market must really be assumed. It is now proposed to deny this right to all non-professional investors and traders in securities if they repurchase within thirty days securities of the kind sold at a loss, at least to the extend of such repurchase. The proposed amendment does not affect the right of professional traders or speculators to deduct their trading losses if registered by sales.

Is It Fair?

Laying aside the question of the constitutionality of the proposed measure, one may well inquire as to its desirability and fairness. Unreasonable discrimination in taxing statutes should always be avoided. The proposed provision without good cause discriminates directly against the great majority of investors, traders and speculators in stocks and bonds.

Buyers and sellers of no other kinds of property are affected. Indeed, merchants may deduct unrealized losses in property on hand by inventorying such property at its depreciated market price without even the formality of a sale and repurchase, but the non-professional investor or trader in securities not only may not under the proposed amendment deduct such losses without selling, but he may not do so after selling, unless thirty days elapse without repurchase of securities of the kind sold.

The general purpose of the income tax laws is to tax true net income; taxpayers who bought stocks at inflated prices have suffered real and certain losses, whether or not such stocks are actually sold on the market, in exactly the same way as have merchants caught by falling prices, and such losses must be accounted in order correctly to compute real net income. Denial of the right to deduct such losses, except under the conditions provided, may well work substantial hardship, particularly on investors and traders habitually dealing in a narrow range of securities. They will be forced to compute their incomes without the benefit of trading losses sustained, or to forego trading in their favorite securities for a period of thirty days after the sales establishing their losses. Of course, this rule does not work both ways, and any profits realized by sales are taxable, whether or not identical property is repurchased within thirty days.

It should be added that the proposed provision will not be retroactive in its effect. **Investors or traders now having accrued losses would do well therefore if possible to realize such losses by sale before the passage of the new act, again purchasing those securities they desire longer to carry.**

Reorganization Provisions

Owners of securities and others interested generally in corporate affairs will be gratified by the liberal provisions of the new act (Section 202) concerning the taxation of "profit" realized in connection with the reorganization, consolidation or merger of corporations.

Before the passage of the revenue Act of 1918, every rearrangement of corporate affairs requiring security owners to exchange their interests for other securities was held to work taxable gain to the exchangers, if the value of the securities received was greater than the cost of those disposed of. And the officers charged with the enforcement of the revenue laws have always asserted tax liability against promoters or investors who in connection with the organization or reorganization of corporations received securities of a value greater than the cost of property transferred to such corporations, even though such securities represented only the property so transferred to the corporation.

The revenue Act of 1918 contained a narrow saving clause to the effect that corporate readjustments involving exchanges of securities should not work taxable gain to the exchangers if the *par* value of stocks or bonds received was no greater than the par value of stocks and bonds exchanged therefor, which, especially after the stock dividend decision, gave some measure of relief. The restriction, that exchanges must be on a basis of parity, however, has proved to be too narrow to permit of facile corporate reorganization.

The conditions described have exercised a restrictive influence on the formation and reorganization of corporations ever since high income tax levies were introduced as a more or less permanent feature of our fiscal system. Owners of corporate securities or other properties could not afford to risk loss of half their capital by taxation, and hence they have in many cases refrained from undertaking organization or reorganization of corporations in the absence of assurance of protection from devastating tax levies.

The new act will if passed in its present form admirably meet the necessities of the situation. **It plainly provides for both problems commonly met with in the organization or reorganization of corporate business by exempting from tax so-called gains measured by the difference between the cost of properties transferred to corporate owners and the value of the securities received in place thereof, or by the difference between the cost of old securities given up and the value of new securities received, provided only that the exchanges be made in connection with the organization, reorganization or acquisition of control of corporations.**

A further condition to the exemption from tax of so-called gains in connection with the transfer of properties to corporations for stock is that the stock issued therefor must be in proportion to the exchangers' interests in the properties before the transfer, and put at least 80% of the outstanding stock in their hands.

Net Losses

Responding to a general demand, Congress has incorporated in the pending tax bill (Section 204) a provision for the deduction of one year's net loss from a succeeding year's taxable net income, in order to avoid hardship on taxpayers encountering abnormal business fluctuations from year to year.

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The Bond Market

Are Liberty Bonds on Way to Par?

New Treasury Offering at 4¼%-4½% May Have Vital Significance—Why Liberties Have Ruled Strong Recently

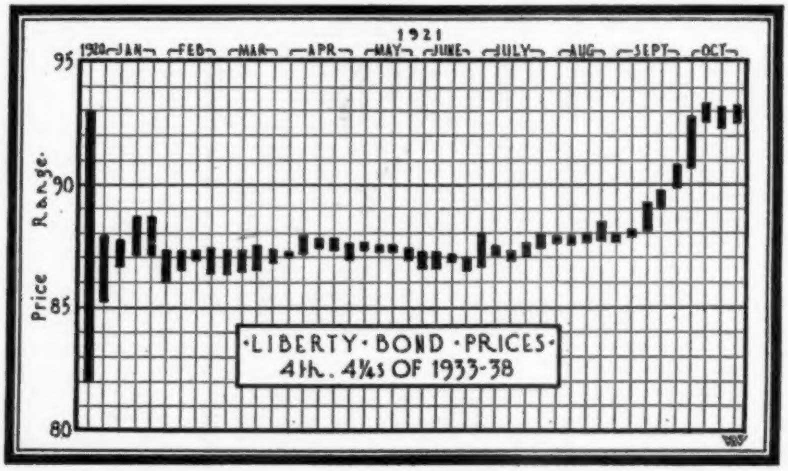
By **E. D. KING**

THE vast majority of Liberty bond holders are probably not even aware that the Treasury has recently offered a $200,000,000 issue of Treasury certificates bearing an interest rate of 4¼-4½%. Yet the action of the Treasury officials may be taken as an indication that the broad movement in Liberty bonds will not halt until they reach par.

What's the Connection?

What connection can there possibly be between the prices of Liberty bonds and the rate of interest on Treasury certificates? So queries the unenlightened investor. But readers of THE MAGAZINE OF WALL STREET are aware that the relation between Government securities (and all gilt-edge bonds) and interest rates is a very close one. They know that when interest rates are low, bond prices are high.

Therefore, when the Treasury announced its offering at the 4¼-4½% rate against the previous rate of 5¼-5½% a few months ago, the meaning was that interest rates had generally reached a lower level, and correspondingly that the days of high-cost Government financing were at an end. With the interest on Treasury certificates down to that obtainable on Liberty bond issues, the two are at a parity. Additionally the lower rate of interest foreshadows a gradual recovery of these isues to par.



Why Liberty Bonds Have Advanced

A glance at the attached chart will show that in the past two months Liberty bond issues have been gradually climbing until they are now at the highest level in practically two years. The reason for this is a very profound one. Specifically, it is due to heavy Government purchasing in order to take advantage of the generally lower level of Liberty bond prices as compared with those which will obtain in a year or so from now, and to heavy purchasing by individuals and institutions who are in close touch with the situation and who understand what is going on. Fundamentally, of course, it was due to the inexorable influence of interest rates on the bond market.

For nearly a year, interest rates have been dropping. At the beginning of the year, time money was unobtainable under 7½%. Now plenty of funds are obtainable at 5½%. In the same period the average of bond prices (as indicated by the New York *Times* index) rose from 67 to about 72. In other words, there has been a drop in interest rates of about 30% but an increase of only 7½% in the price of representative bonds. The discrepancy is too severe. *Bonds must simply go up,* under these conditions.

With reference to Liberty bond issues, the case is even more clear. Assuming the average cost of Government financing at 4½%, as indicated by the last Treasury offering, there is no reason for Liberty bonds to offer much more of a premium above that figure. In other words, if Treasury certificates are to yield only 4½%, Liberty bonds should and will yield only 4½%.

The Situation Today

Is that the situation today? Examining the entire list of war-issues, only two —the tax-exempt 3½s and the Victory 3¾s—can be found to sell on an unfavorable basis as compared with prevailing rates on Treasury certificates. The 1st and 2nd 4s are selling on about a parity with Treasury certificate rates but all the others are still offering a substantially higher yield, the 3d and 4th 4¼s actually yielding nearly 5%. Even with Treasury rates at 4½%, Liberty bonds, as a whole, are selling too low but there is nothing to suggest that the rate is to remain indefinitely at 4½%. In fact, it will be noticed that part of the last offering was made at 4¼%.

Should the rate drop within the next few months to only 4%, a very strong possibility, the effect on Liberty bonds would be obvious. However, it is probable that this would have long since been discounted in the market.

Profit Opportunities

In order for the 4th 4¼s to yield 4¼%, which is the indicated rate, they should sell at par or 100. They are now selling at about 92½ so that there is still a possibility of 6½ points profit. As these are long-term bonds, however, and as interest rates or at least the cost of Government financing is likely to drop to 3½% within the next few years, the possibilities are altogether in favor of the long-term Liberty issues selling at a premium before they are called in. **Whichever way the situation is regarded, higher prices for Liberty issues must be looked upon as a practical certainty.**

Since the first Liberty bond issue was created, interest rates have nearly completed a cycle. Ranging at between 3¾% and 4% in the earlier months of 1917 when the 1st 3½s were offered for public subscription they advanced to about 9% in 1920. During this period the cost of Government financing successively advanced from 3½% (according to the rates on Government issues) to 4%, then 4¼%, then 4¾%, then, as in the next to last Treasury offering, 5½% and now back to 4¼-4½%. The last step in order to complete the cycle would be for Government financing to reach the 3½-3¾% basis. This will eventually occur. Of that there can be no doubt, considering the altogether changed money and enormously improved banking situations.

At the time the 1st 3½s were offered,

(*Continued on page 74*)

Adams Express Co.

The Bond I Would Buy Today

Exceptional Opportunity for High Yield Exists in Adams 4% Bonds—Why Express Stocks Moved Up

By **R. M. MASTERSON**

WITHIN the past six months THE MAGAZINE OF WALL STREET has on two distinct occasions recommended to its readers the purchase of the stocks of the various Express Companies. Readers who followed the advice given have made very substantial profits.

The first article calling attention to the opportunities of the Express stocks appeared in the April 30th issue of the MAGAZINE, which came out shortly after the announcement of the declaration of an initial dividend on the stock of the American Railway Express Company, the operating company, whose stock is all owned by the three old companies—Adams, American and Wells Fargo. Within two weeks after the publication of the article Adams Express stock showed a gain of over 13 points from the price at which it was selling when the article appeared; American, a gain of over 10 points; and Wells Fargo, about 6 points.

As the summer wore on a general slump in all security prices took place and the market got into a state of lethargy. In sympathy with the rest of the list the Express stocks eased off, in spite of the fact that American Railway Express had declared its second quarterly dividend, thus definitely establishing itself on a regular $6 per annum basis.

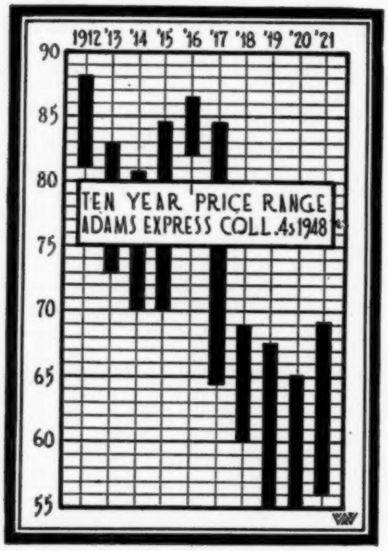
Toward the latter part of July these Express stocks had worked down to a level where they again offered attractive speculative possibilities and in the August 6th issue of the MAGAZINE a second article appeared on these companies, outlining the situation more in detail and definitely recommending the purchase of Adams at 41, American at 114, and Wells Fargo at 54. Subsequently Adams sold at 50¾, the high for the year and representing a gain of nearly 10 points; American at 131, a gain of 17 points; and Wells Fargo at 64½, a gain of 10½ points.

These stocks today are only slightly below their high prices of this year. They should all do considerably better over the long pull, but as they have all enjoyed substantial appreciation from their low points a good bit of the cream has been skimmed from the rise and they are not technically in the right position to be bought at the present time for a quick turn.

One Opportunity Still Left

An opportunity does exist, however, for sound investment in the 4% bonds of the Adams Express Company. These bonds offer a high degree of security, a ready marketability, a good income return, and plenty of possibilities for market appreciation. Before taking up the detailed analysis of these bonds it will probably be well to review briefly, for the benefit of those readers not thoroughly familiar with the situation, the present status of the Express Companies and their relation to the American Railway Express Company.

It will be recalled that shortly after the railroads of the country were taken over by the Government in 1918, the American Railway Express Company was formed, as a war expedient, to take over and consolidate the various express businesses of the American Express Company, Adams Express Company and Wells Fargo & Company on all the railroads of the country. The American Railway Express Company took over only those assets of these companies which pertained directly to their actual transportation



operations and in return the companies were given stock in the American Railway Express Company in proportion to the valuation of the assets taken over. American Express Company received $12,271,000 par value of American Railway Express stock; Adams $11,904,300; and Wells Fargo $10,466,700, making a total of $34,642,000, this representing the entire outstanding capitalization of American Railway Express Company, no bonds or preferred stock ever having been issued outside.

It was originally expected that the American Railway Express Company would function only during the emergency and that after the termination of the war the assets of the various express companies would be returned to them as originally taken over. However, it was later decided, with the consent of the Inter-State Commerce Commission, to make the American Railway Express Company permanent and not to turn back the businesses of the individual companies.

Fortunes of the Government Company

At first the American Railway Express Company was under the direction of the Director General of Railroads who conducted its operations until March 1, 1920. For a period of six months thereafter the company was given a government guarantee, similar to that extended to the railroads, but since September 1, 1920, the company has been independently operated. Under Government control the company was an utter failure but the Government made good all deficits although no profits accrued to it. Shortly after its release from Government operation, however, certain rate increases were allowed, followed by several wage cuts, and the company has been able to operate on a very satisfactory basis.

On April 14, 1921, American Railway Express declared an initial dividend of $3.50 per share, covering the last four months of 1920 and the first three months of 1921. Subsequent quarterly dividends of $1.50 per share each were declared and paid on July 15th and October 13th, thus the stock has definitely been established on a regular $6 per annum basis. Indications are that this dividend is being substantially earned, even under the depressed business conditions of 1921, and with this definitely established dividend and earning power the stock would have a substantial market value if the companies controlling it should at any time desire or find the need of disposing of it.

American Railway Express Company has a thoroughly satisfactory contract with the railroads of the country, approved by the Interstate Commerce Commission, and as time goes on and general business conditions readjust themselves the earnings of the company should gradually improve and be reflected in an appreciation of the stock.

Adams History

The Adams Express Company dates back to 1854 in which year it was organized as a joint stock association and as such it remains today. For many years it carried on a successful and profitable express business, but unlike the American Express Company it did not extend its business into other fields, such as commercial banking, money order, tourist, etc. Consequently when its express business was taken over by the American Railway Express Company in 1918 Adams Express ceased to be an operating company and became merely a holding company for certain valuable securities which it owns. When the time comes that these securities obtain a market value whereby their sale would be profitable there is a possibility that the company might decide to liquidate, but for the present liquidation of the company seems to be remote.

Adams Express Company's outstanding

capitalization is made up of $10,000,000 capital stock, par $100, $8,997,500 collateral trust distribution gold 4s due June 1, 1947, and $7,297,000 collateral trust gold 4s due March 1, 1948. These two bond issues are both direct obligations of the company and are specifically secured by pledge of certain securities with the respective trustees.

The 4s of 1948 are listed on the New York Stock Exchange but the 1947 issue is traded in in the over-the-counter market. Nevertheless, the unlisted bonds enjoy an excellent market and it is practically just as easy to buy or sell them as it is the listed bonds. **Irrespective of this fact, the unlisted bonds usually sell from 6 to 8 points below the listed issue, and when it is considered that the safety of the two bonds is nearly the same the 4s of 1947 seem the better buy in view of their higher yield.** It is true that the market value of the pledged collateral behind the issue of 1948 is slightly greater, per $1,000 outstanding bond, but the fact that the 1947 issue is the earlier maturity and that both bonds are direct obligations of the company, should offset this small difference in the market value of the collateral at the present time.

Collateral Behind the Bonds

In the accompanying table a list is given of the pledged collateral behind these issues. **It will be observed that the bulk of this pledged collateral is made up of high-grade, low couponrate, railroad bonds.** The total par value of the securities pledged against the 4s of 1947 amounts to $10,875,150, about $1,208 per $1,000 outstanding bond, and against the 4s of 1948 to $8,697,000, or about $1,192 per $1,000 of bonds outstanding.

A significant fact about this pledged collateral is that it is provided in the respective deeds of trust of the two bond issues that upon maturity of the bonds the trustee shall sell and dispose of the securities deposited and any surplus remaining, after payment of principal and interest, shall be distributed pro rata among the holders of the bonds. From a study of this pledged collateral it will be noticed that many of the bonds deposited mature before or shortly after the maturity of the bonds against which the security is pledged. It is highly possible, therefore, that upon maturity the Adams bonds will receive payment considerably in excess of par.

The market value of the collateral, on December 31, 1920, behind the 4s of 1947 amounted to $6,164,261 and of that pledged behind the 4s of 1948 to $6,124,874. This is the equivalent of about $683 for each $1,000 bond of the 1947 maturity and $839 for each $1,000 bond of the 1948 issue. As bond prices, generally, are today considerably above their level at December 31, 1920, it would probably be found that the value of this pledged collateral is somewhat above these figures now. Compared with these market values for the pledged collateral the unlisted 4s (1947) are selling at about 59 and the listed bonds (1948) in the neighborhood of 67.

A peculiar circumstance about the unlisted bonds is that they are traded in on a "flat" basis. That is, when a purchase of the bonds is made no charge is made for the accrued interest to the date of the purchase as is the case generally. As the 4s of 1947 have a 6 months' interest coupon falling due December 1st a purchaser of the bonds now at 59 would collect a $20 coupon in a short time thus bringing the price down to about 57. At 57 these bonds yield a current interest return of just 7%, or something over 8% if held to maturity.

Price Range

A price range of the listed bonds of 1948 over the past ten years is given in the accompanying graph. Similar figures are not available for the unlisted issue, but an estimate can be formed as their price usually runs from 6 to 8 points lower. The extreme high for the '48s was 104⅝, in 1906, and the low 55, in 1919 which compare with a high quotation of 94 bid 95 asked, in 1909, for the '47s and a low quotation of 48 bid 52 asked in 1919.

Bonds Are Direct Obligations

It should not be overlooked that these bonds are direct obligations of the company and if, by any chance, the pledged collateral should not be sufficient to liquidate the bonds at maturity they would still have a claim against the other assets of the company. According to the last balance sheet, dated December 31, 1920, the free assets of the company consisted of $11,904,300 par value stock of the American Railway Express Company, $2,240,000 second mortgage bonds of the Adams Express Building Company, current items of $875,266, other securities at

(*Continued on page* 68)

Adams Express Company

Pledged Collateral Behind the

4% Bonds of 1948

Bonds

Par Value	Security
$84,000	Alabama & Gt. Southern 1st 5s, 1927.
265,000	Atlantic City R. R. 1st Cons. 4s, 1951.
200,000	Atch. Top. & S. F. Trans. 1st 4s, 1958.
200,000	Atl. Coast Line L. & N. Coll. 4s, 1952.
408,000	Balt. & O. P. L. E. & W. Va. Ref. 4s, 1941.
741,000	Big Sandy Ry. 1st 4s, 1944.
150,000	Birmingham Terminal Co. 1st 4s, 1957.
12,000	Boonville R. R. Bridge 1st 4s, 1951.
10,000	Brooklyn Union Elevated 1st 5s, 1950.
260,000	Ches. & Ohio Gen. 4½s, 1992.
31,000	Ches. & Ohio Craig Valley 1st 5s, 1940.
100,000	Chic. & E. Ills. Ref. & Imp. 4s, 1955.
100,000	Chic. R. I. & Pac. 1st & Ref. 4s, 1934.
100,000	Chic. & Western Ind. Cons. 4s, 1952.
100,000	Cleve. Terminal & Valley 1st 4s, 1995.
375,000	Erie R. R. Gen. Lien 4s, 1996.
90,000	Erie R. R. Prior Lien 4s, 1996.
100,000	Erie R. R. Pennsylv. Coll. 4s, 1951.
100,000	Hocking Valley 1st Cons. 4½s, 1999.
100,000	Iowa Centl. 1st & Ref. 4s, 1951.
1,352,000	Lake Shore & Mich. So. 25 yr. 4s, 1931.
100,000	Long Island (No. Shore Br.) 1st Cons. 5s, 1932.
25,000	Louisville & Jeff. Bridge 1st 4s, 1945.
100,000	Louisville & Nash. Unified 4s, 1940.
200,000	Louis. & Nash. Sou. R. R. 4s, 1945.
120,000	Michigan Centl. 20 yr. Deb. 4s, 1929.
150,000	Minn. & St. Louis 1st Ref. 4s, 1949.
30,000	Minn. & St. L. Pacific Ext. 6s, 1921.
100,000	New York Bay Extension 1st 5s, 1943.
300,000	N. Y. Chic. & St. L. Deb. 4s, 1931.
100,000	N. Y. Susquehanna & W. 1st Ref. 5s, 1937.
615,000	New Orleans Terminal 1st 4s, 1953.
100,000	Norfolk & W. Div. 1st L. & Gen. 4s, 1944.
411,000	Norfolk & W. 1st Cons. 4s, 1996.
200,000	Phila. Balto. & Wash. 1st 4s, 1943.
100,000	Provid. Securities Co. 50 yr. Deb. 4s, 1957.
232,000	Reading Jersey Central Coll. 4s, 1951.
100,000	Rio Grande Western Cons. 4s, 1949.
98,000	Southern Ry. East Tenn. Reorg. Lien 5s, 1938.
25,000	South'n Ry. St. Louis Div. 1st 4s, 1951.
5,000	Southern Ry. 1st Cons. 5s, 1994.
100,000	Terminal Assoc. of St. Louis Gen. Ref. 4s, 1953.
50,000	Toledo & Ohio Centl. Gen. 5s, 1935.
13,000	Union Depot of Columbus Gen. 4½s F. 7s, 1923.
130,000	Union Depot of Col'bus Gen. 4½s, 1946.
200,000	Washington Terminal 1st 3½s, 1945.
115,000	Western N. Y. & Penna. Gen. 4s, 1943.
100,000	Wheel. & L. Erie 1st Cons. 4½s, 1966.
$8,697,000	**Total**

4% Bonds of 1947

Bonds

Par Value	Security
$400,000	Atch., T. & S. F. Short L. 1st 4s, 1958.
15,000	Ches. & O. Craig Val. Br. 1st 5s, 1940.
200,000	Chic. & Ills. Ref. & Imp. 4s, 1955.
200,000	Chic., R. I. & P. Ref. 4s, 1934.
325,000	Chic., Gt. Western 1st 4s, 1959.
300,000	Chic. & W. Ind. 1st Cons. 4s, 1952.
10,000	Cinc., Rich. & Ft. Wayne 1st Guar. 7s, 1921.
100,000	Consolidated Ry. Co. 4% Deb., 1954.
100,000	Georgia Ry & Banking Co. 4s, 1947.
214,000	Interboro Met. Coll. 4½s, 1956.
325,000	L. & Nash. (Atl., Knox. & Cin.) 4s, 1955.
200,000	Michigan Cent. Deb. 4s, 1929.
200,000	Missouri, K. & Tex. 4s, 2004.
200,000	Miss. Central 1st Mtg. 5s, 1949.
300,000	N. Y., Chic. & St. L. Deb. 4s, 1931.
150,000	N. Y. Ct. & Hud. R. Deb. 4s, 1934.
300,000	Norf. & W. 1st Lien & Gen. 4s, 1944.
50,000	Oregon Short Line Ref. 4s, 1929.
3,000	South Bound R. R. 1st Mtg. 5s, 1941.
31,000	S. Ry., E. Tenn. Reorg. Lien 5s, 1938.
6,000	St. P., Min. & Manib. Cons. 6s, 1933.
45,000	South. Ry. 1st Cons. 5s, 1994.
523,000	So. Ry. Dev. & Gen. 4s "A," 1956.
100,000	Va. & Southw. 1st Cons. 5s, 1958.
229,000	B. O. P. L. E. & W. Va. Ref. 4s, 1941.
500,000	B. & O., Tol. & Cinc. Div., 1st L. & Ref. 4s, 1959.
50,000	Mo., K. & Tex., St. L. Div., 4s, 2001.
182,000	Ches. & O. Cons. 4½s, 1930.
242,000	Hudson & Manh. 1st & Ref. 5s, 1957.
200,000	Hudson & Mant. Adj. Inc. 5s, 1957.
150,000	R. I., Ark. & La. 1st 4½s, 1934.
700,000	Note of Adams Land Bldg. Co.

Stocks

Par Value	Security
1,300,000	Adams Land & Bldg. Co.
100,000	American Express Co.
140,300	Baltimore & Ohio common.
60,000	Bank of America, N. Y.
60,000	Boston & Albany R. R.
325,000	Chic., Mil. & St. Paul pfd.
200,100	Chic., Mil. & St. Paul common.
5,900	Chemical National Bank, N. Y.
20,000	Commercial Trust Co., Phila.
100,000	Delaware & Hudson.
70,000	Erie R. R. 1st preferred.
49,400	First National Bank, N. Y.
10,000	Gold & Stock Telegraph Co.
10,000	Import. & Traders Nat. Bank, N. Y.
18,900	International Ocean Telegraph Co.
6,550	Manhattan Company, New York.
7,500	Mechanics & Metals Nat. B'k, N. Y.
91,000	Minneapolis & St. L. preferred.
10,000	National Bank of Kentucky.
17,500	National Bank of Commerce, N. Y.
25,000	Wells Fargo Express Co.
50,000	Litchfield & Madison Ry. preferred.
75,000	Chicago, Gt. Western Ry. preferred.
1,473,000	N. Y., N. H. & Hartford common.
200,000	Northern Pacific Ry.
$10,875,150	**Total**

Bonds Again Higher

Further Reduction in the Federal Reserve Rediscount Rate and the Settlement of the Railroad Strike the Features of the Past Fortnight's Events

ACTIVITY in the bond market took on a new momentum in the past couple of weeks and the upward swing was resumed in a great many issues. The settlement of the proposed railroad strike removed a most disturbing influence from the market and resulted in a very firm undertone for railroad bonds. A new impetus was injected into the market when the Federal Reserve Banks made a further reduction in the rediscount rate to 4½%. This reduction lays the foundation for another rise in bonds. Sound issues which are selling to yield anywhere from 5½ to 6%, offer excellent possibilities for the further enhancement in value.

Bonds on the whole have not fully aligned themselves with the continually lowering level of money rates.

The economic conditions throughout the country continue to improve. There is a noticeable increase in activity in almost all the basic industries. Pig iron production last month was the largest since March of this year; prices and demand in the rubber and leather industries have improved steadily; the textile industry continues to report great activity; the movement of grain has been very heavy for the past month; the weekly bank statements continue to show a liquidation of loans and a decline in the Federal Reserve notes in circulation. The process of liquidation and deflation seems to have about run its course and turned into the period of slow and steady recovery.

Everything points to a higher level for bonds.

Government Bonds

The grade A foreign government issues were the features of the last two weeks' market. Sensational advances were recorded in the United Kingdom of Great Britain, Kingdom of Sweden, City of Copenhagen, Government of the Argentine and City of Zurich bonds. Advances in these issues ranged anywhere from 1¾ to 3½ points.

The yields on these bonds were obviously considerably out of line with our high grade and middle grade issues. These foreign issues have always sold at higher yields than our domestic bonds because of the uncertainty in the minds of the American investing public as to the entire outlook for the European situation. In order to make these bonds "go" here they had to be sold on a very attractive basis.

Sentiment in this respect is turning the other way now, it would seem. Where the investor feared for the safety of his principal in foreign investments he is now beginning to realize that these bonds are decidedly attractive at yields of 7% and better, with our own bonds selling to yield on an average of 6%.

The foreign municipal bonds presented in the guide are well secured and can be considered as safe investments and as for the government issues all one needs is faith in the ultimate recovery and prosperity of European countries to believe in these issues. These foreign issues seemed destined for higher levels.

Railroad Bonds

The full effect of the railroad strike setttlement on the railroad bond market is not reflected by the prices quoted in this issue. Prices on most issues were inclined to be reactionary while the strike threat was hanging fire, but upon the news of the settlement prices stiffened and recovered most of their losses by the end of the month (prices in Bond Buyers' Guide are as of October 30th).

The Baltimore & Ohio South West Division bonds continue to be the most attractive issue in the Gilt Edge Group. In the Middle Grade Group the Illinois Central Col. Trust 4s and the Atchison Conv. 4s were the star performers, rising two and three points respectively in the course of the two weeks. It will be noted that we have the Illinois Central bonds listed as first choice in this group. The Southern Pacific Col. Trust 4s and the Cleveland, Cincinnati, Chicago & St. Louis Deb. 4½s. advanced ¾ths and 1¼ points respectively. The bonds in this group were very strong and were favored to a much greater extent by investors than the Gilt Edge railroad bonds. Investors seem willing to sacrific the ultimate degree of safety for a better return on the investment, especially among those bonds which, while not technically as sound as those listed in the Gilt Edge group, are nevertheless very safe investments.

There was some activity in a few of the issues in the railroad speculative group. Western Maryland 4s, Iowa Central 5s, Missouri Pacific 4s and Carolina, Clinchfield & Ohio 5s came in for special attention. All these issue rose from one point to a point and a half. There are some excellent opportunities for substantial profit in this group.

Industrial Bonds Advance

It was only to be expected with the continued improvement in the affairs of most industrial concerns and the almost complete removal of fear concerning financial troubles that this class of bonds would show further response. None of the bonds in the Gilt Edge group sold off as much as an eighth of a point and each of the first four issues advanced from 1 to 2¾ points. It is even more remarkable that of the eleven bonds listed in the Middle Grade group only one Adams Express Co. 4s, which had had a substantial rise in the previous two weeks, declined at all. The move we have long been expecting in the Computing, Tabulating & Recording bonds seems to be on for fair These bonds advanced 3¼ points, after having gone up a point or so in the previous week. The Bush Terminal Bonds had another big rise selling two points higher than in the previous two weeks. The American Smelting & Refining bonds were also very strong, advancing 1½ points; as were the Goodyear Tire & Rubber 8s, which sold 1 point higher.

In the speculative group the play was all in the Chile Copper Co. 6s, which, with the American Writing Paper bonds, were selling at the high yield of 9.45%. These bonds advanced 2½ points, but it is our opinion that this is only the beginning of the move for this issue. The copper situation is steadily improving. Demand is increasing slowly and production is so low that each month finds the copper surplus further reduced. It will not be very long before Chile Copper is again operating at a profit and the opportunity to obtain a bond which under normal conditions will enjoy a much higher rating will be gone. This holds true for practically every bond in this group.

Public Utility Bonds

In the public utility groups the most substantial gains were recorded among the middle grade bonds. Here the Brooklyn Union Gas 5s and the Northern States Power 5s advanced 2⅞ and 2¼ points respectively. Demand for public utility bonds has been very heavy for the past month or so, and this is no doubt due to a recognition on the part of the investing public of the extremely bright outlook for this particular class of companies. Public utility companies should make more money next year than they have since the beginning of the war, because of the increasing need for light, heat and power and the lower cost of operation. Almost any public utility company of intrinsic value serving a thriving and growing community should be able to make good profits in the coming year, and it is for this reason that the bonds of small and large companies with the biggest yields are attracting the most attention.

The only heat and power company listed in our speculative group is the Virginia Ry. & Power Co., which is as much of a street railway proposition as a heating and power plant, and it is for this reason that we do not give it higher rating. The company has good speculative possibilities, however.

Undoubtedly, the Hudson & Manhattan Ref. 5s are the best bond in this group. While the company is earning the interest requirements on this issue by a very small margin at present it should do considerably better in the coming years. These bonds rank ahead of the Adjustment Income bonds of the company, interest on which is not being fully earned. The Interborough and Third Ave. bonds are also excellent speculations.

Victory Bonds Cross Par

Probably the most encouraging event in the entire bond movement has been the action of the Victory 3¾ and 4¾% bonds which recently crossed par for the first time this year. This movement more than

anything else indicates the sound condition of the bond market and the realization on the part of investors that the time of high yields for sound investment is rapidly drawing to an end. The entire list of Liberties was higher and in good demand at all times.

Resume and Forecast

The bond market has without doubt given a very good account of itself for the past two weeks, and seems surely headed for higher levels. The movement in bonds has become so broad and well sustained that we believe investors can safely purchase those bonds on our list which still give the highest return on the investment. We do not mean that investors should purchase any bond at random just because we recommend it. On the contrary we still insist that a prospective purchaser should satisfy himself before buying by making a personal investigation; but we do believe that investors would do well to investigate those bonds which at present offer the largest return. If he is satisfied the risk is not too great, the higher yielding bonds should now be given the preference, for they will probably enjoy the most substantial rises from this time on.

ABOUT THOSE LIBERTY BONDS

(The following is taken from THE MAGAZINE OF WALL STREET's Investment and Business Service:)

"We will never advise a sale of United States Government bonds because we know them to be the premier security of the world, and our Government credit should sooner or later be on a 3% basis. But we believe it would be utter hypocrisy to insist that an investor, who really needs a larger income, must hold them.

"All brokers will accept Government bonds at 80% of their face value to purchase other securities; if they do not, we should like to know the names of firms who refuse. Most banks will loan from 80% to 90% if the customer is otherwise in good standing, and his bank in the habit of extending facilities. Government bonds should continue to rise as the money position eases, until they are on a 3% basis or thereabouts; this means there is still a big possibility of prices above 110 for 'Liberties.' In this respect they combine absolute safety with assured profit, and thus stand alone in the field of securities. If it be impossible, for some reason unknown to us, to borrow in order to secure a higher yield, then they should only be switched into securities of like gilt-edge character such as underlying railroad bonds yielding at present between 5.5 to 6% for gilt-edge preferred stocks, or bonds described as 'Gilt Edge' in our Bond Buyers Guide, or the highest type of preferred stocks.

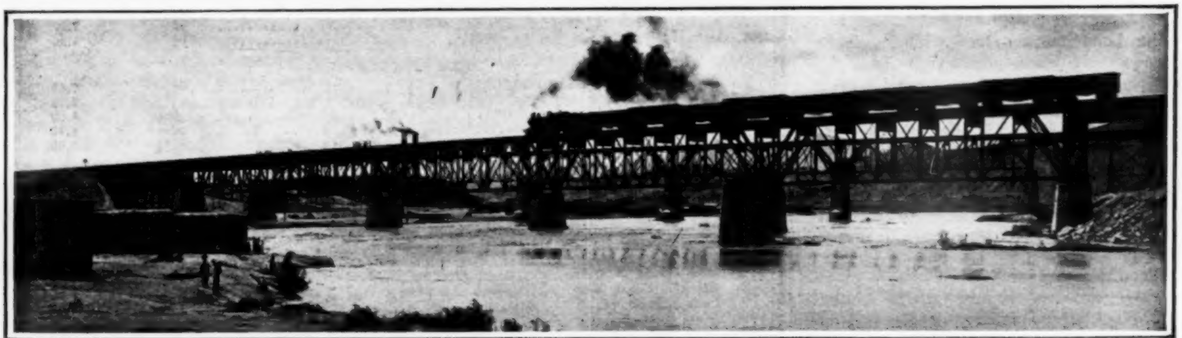
"Investors in Victory and Liberty bonds should now switch into the longest term Government Bonds available as the better opportunities are there. The best short-term investment available from time to time is the Government Treasury Certificate which yields about 4¼%, or about as much as the savings bank affords. We believe, however, that Liberty Bonds of longer term can be used even for this purpose."

BOND BUYERS' GUIDE

		Apx. Price	Apx. Yield
	Foreign Governments. — BETTER GRADE.		
1.	City of Christiania (b) 8s, 1945	102½	7.75%
2.	Danish Municipal (b) S. K. 8s, 1946	103½	7.65
3.	City of Zurich (b) 8s, 1945	105	7.55
4.	Kingdom of Sweden 6s, 1939	93⅜	6.70
5.	U. K. of Gr. Britain & Ireland (c) 5½s, 1937	91½	6.35
6.	City of Copenhagen (b) 5½s, 1944	82	7.10
7.	Argentine (c) 5s, 1945	75	7.20
8.	Dominion of Canada (c) 5s, 1931	93	5.90
	MORE SPECULATIVE.		
1.	Kingdom of Belgium (a) 6s, 1925	95	7.45
2.	Kingdom of Italy (d) 6½s, 1925	91	9.25
3.	Republic of Chile (b) 8s, 1941	100	8.00
4.	Sao Paulo (b) 8s, 1936	99	8.10
5.	U. S. of Brazil 8s, 1941	99⅝	8.05
	Railroads. — GILT EDGE.		
1.	Balt. & Ohio S. W. Div. (b) 1st Mtg. 3½s, 1925	84	8.25
2.	Ches. & Ohio (a) Genl. Mtg. 4½s, 1992	79	5.75
3.	Delaware & Hudson (a) 1st & Ref. 4s, 1943	81⅝	5.45
4.	Southern Pacific (b) 1st Ref. 4s, 1955	73	5.45
5.	Union Pacific (b) 1st Mtg. & L. G. 4s, 1947	82½	5.25
6.	New York Central (a) Genl. Mtg. 3½s, 1997	68⅝	5.15
7.	Chic., Burl. & Quincy (a) Genl. Mtg. 4s, 1958	80	5.25
8.	Atlantic Coast Line (a) 1st Mtg. 4s, 1948	79¼	5.45
9.	Pennsylvania (a) Genl. Mtg. 4½s, 1965	80⅝	5.70
10.	West Shore (a) 1st Mtg. 4s, 2361	74	5.45
11.	Norfolk & Western (c) Cons. 4s, 1996	79½	5.05
12.	Central R. R. of N. J. (a) Genl. Mtg. 5s, 1987	97	5.15
13.	Atchison (b) Genl. Mtg. 4s, 1995	79⅜	5.05
14.	Chic., R. I. & Pacific (a) Genl. Mtg. 4s, 1988	74½	5.45
	Industrials.		
1.	Armour & Co. (a) R. E. 4½s, 1939	83¼	6.05
2.	General Electric (b) Deb. 5s, 1952	89⅝	5.75
3.	International Paper (a) 5s, 1947	86⅜	6.00
4.	Indiana Steel (a) 5s, 1952	92½	5.50
5.	Liggett & Myers (aa) Deb. 5s, 1951	86½	5.95
6.	Baldwin Loco. (a) 5s, 1940	94½	5.45
7.	National Tube (a) 5s, 1952	91¼	5.60
8.	Corn Products (a) 5s, 1934	91-95	—
9.	U. S. Steel (a) 5s, 1963	95⅝	5.25
	Public Utilities.		
1.	Duquesne Light (b) 6s, 1949	95⅞	6.35
2.	Pac. Tel. & Tel. (a) 5s, 1937	87	6.30
3.	Amer. Tel. & Tel. (c) 5s, 1946	89⅜	5.75
4.	N. Y. Telephone (b) 4½s, 1939	85⅜	5.75
5.	Montana Power (c) 5s, 1943	88	5.95
6.	Cal. Gas & Electric (a) 5s, 1937	90	5.55
7.	Western Union Tel. (a) 4½s, 1950	84	5.65
8.	N. Y. G., E. L., H. & P. (a) 5s, 1948	89½	5.75
	Railroads. — MIDDLE GRADE.		
1.	Southern Pacific (b) Col. Trust 4s, 1949	74	5.90
2.	Illinois Central (b) Col. Trust 4s, 1952	77	5.55
3.	Balt. & Ohio (b) 1st Mtg. 4s, 1948	71	5.25
4.	Norfolk & Western (a) Conv. 6s, 1929	103¼	5.50
5.	Atchison (a) Conv. 4s, 1960	85½	4.85
6.	St. Louis-San Fran. (a) Prior Lien 4s, 1950	63½	6.95
7.	Cleve., Cinn., Chic. & St. L. (a) Deb. 4½s, 1931	82⅜	6.95
8.	Ches. & Ohio (b) Conv. 5s, 1946	83½	6.30
9.	Pere Marquette (c) 1st Mtg. 5s, 1956	85	6.00
10.	Kansas City Southern (a) 1st Mtg. 3s, 1950	59⅝	6.05
11.	Pennsylvania (a) Genl. Mtg. 5s, 1968	88⅞	5.65
12.	St. Louis Southwestern (a) 1st Mtg. 4s, 1989	70⅝	5.75
	Industrials.		
1.	Wilson & Co. (a) 1st 6s, 1941	91⅜	6.75
2.	Comp. Tab. & Recording (b) 6s, 1941	84½	7.50
3.	Adams Express (b) 4s, 1948	67	6.65
4.	DuPont deNemours (c) 7½s, 1931	100	7.50
5.	Diamond Match (c) Deb. 7½s, 1935	105¾	6.85
6.	Int. Merc. Marine (b) 6s, 1941	84	7.55
7.	Lackawanna Steel (c) 5s, 1950	78½	6.70
8.	Bush Terminal Bldg. (a) 5s, 1960	80½	6.85
9.	U. S. Rubber (c) 5s, 1947	80	6.65
10.	Amer. Smelting & Refining (c) 5s, 1947	81⅞	6.45
11.	Goodyear Tire (c) 8s, 1941	104¾	7.55
	Public Utilities.		
1.	Detroit Edison (c) Ref. 5s, 1940	84	6.45
2.	Brooklyn Union Gas (a) 5s, 1945	85⅞	6.15
3.	Northern States Power (b) 5s, 1941	84½	6.35
4.	Brooklyn Edison (c) 5s, 1949	85	6.15
5.	Utah Power & Light (a) 5s, 1944	82¾	6.45
6.	Cumberland Tel. & Tel. (b) 5s, 1937	84½	6.65
	Railroads. — SPECULATIVE.		
1.	Western Maryland (a) 1st Mtg. 4s, 1952	56⅜	7.65
2.	Iowa Central (a) 1st Mtg. 5s, 1938	71	8.15
3.	St. Louis Southwestern (a) Cons. Mtg. 4s, 1932	65½	9.00
4.	St. Louis-San Francisco (a) Adj. Mtg. 6s, 1955	65¾	9.35
5.	Southern Railway (a) Genl. Mtg. 4s, 1956	58⅜	7.25
6.	Missouri Pacific (b) Genl. Mtg. 4s, 1975	57	7.15
7.	Carolina, Clinch. & Ohio (c) 1st Mtg. 5s, 1938	77⅜	7.30
8.	Minneapolis & St. Louis (a) Cons. Mtg. 5s, 1934	70-72⅝	—
9.	Denver & Rio Grande (c) 1st Ref. 5s, 1955	44½	11.60
	Industrials.		
1.	American Writing Paper (a) 6s, 1939	71	9.35
2.	Chile Copper (b) 6s, 1932	79	9.00
3.	Va.-Carolina Chemical (c) 7½s, 1932	93½	8.45
4.	American Cotton Oil (a) 5s, 1931	74	9.00
	Public Utilities.		
1.	Hudson & Manhattan (c) Rfdg. 5s, 1957	72	7.15
2.	Intr. Rapid Transit (a) 5s, 1966	53¼	9.50
3.	Third Avenue (b) Refg. 4s, 1960	55	7.65
4.	Public Service Corp. of N. J. (a) 5s, 1959	71	7.25
5.	Va. Rwy. & Power (a) 5s, 1934	60½	9.00

(aa) Lowest denomination, $5,000. (b) Lowest denomination, $500.
(a) Lowest denomination, $1,000. (c) Lowest denomination, $100.
(d) Lowest denomination, $50.

Railroads



Missouri Pacific R. R. Co.

Another Southwest Road with a Bright Outlook

Missouri Pacific Greatly Strengthened Since Reorganization and Well Maintained, Should Prove to Be One of the Most Prosperous Roads in the Southwest Territory

By **ARTHUR J. NEUMARK**

WE have on more than one occasion called the attention of our readers to the speculative possibilities existing in the securities of three southwestern roads, namely, the Chicago, Rock Island & Pacific, the St. Louis-San Francisco and the St. Louis Southwestern, the first two of which have recently gone through drastic reorganizations. In the opinion of the writer the securities of the Missouri Pacific R. R. offer some very attractive opportunities at the present time and consequently a review of the status of the road seems in order.

Mileage Operated

The Missouri Pacific R. R. (otherwise known as Mop) operates over 7,000 miles of road, chiefly throughout the states of Kansas, Missouri, Arkansas and Louisiana. The road has a very strong foothold in these states and obtains a very heavy volume of the grain, cattle, lumber, cotton and mineral products originating there. Mop is rich in the number of feeders and branch lines it possesses, richer in this respect probably than any other southwestern road. The road has very valuable trackage rights over the Texas & Pacific lines which enable it to carry on a very profitable interchange of traffic between points in Texas and the main line. Along its line from St. Louis to the Gulf the road has very little competition, in fact is the only one of the southwestern roads that has a direct line between these two points. The St. Louis Southwestern parallels the road from St. Louis to Texarkana, Ark., but from this point runs due west.

Mop's chief competitor for business originating in Kansas is the Rock Island. Both roads have access to three important gateways of trade, namely, Omaha, Neb., Kansas City, Mo., and St. Louis, Mo. On the traffic going north and east from these centers Rock Island has the decided advantage for it has a direct line to Chicago, at which point it does a large inter-change business. On the other hand Mop is able to carry on a much heavier business with points southeast of Kansas. **All in all Mop must be considered one of the strongest of the southwestern roads from the point of view of intensive development of the line throughout important and growing industrial centers and in respect to outlets at important gateways of trade.**

History

The Missouri Pacific R. R. was organized on March 5, 1917, as a successor to the Missouri Pacific Ry. and the St. Louis, Iron Mountain & Southern Ry. The latter roads were placed in the hands of a receiver in 1915 because of default on bond interest.

The old Missouri Pacific suffered from the trouble that was prevalent among southwestern roads — over-capitalization. Under the reorganization plan declared operative on Nov. 28, 1916, the fixed charges of the road were scaled down from about $13,300,000 to close to $10,500,000, or over 21%. An issue of $71,800,100 5% cumulative preferred stock was created in place of the old Mop Gold 4s and 1st and Ref. 5s and various issues of subsidiary companies. The common stock remained unchanged.

Before turning to the question of what the possibilities for the road are under the new capitalization we will endeavor to ascertain how efficiently the property is handled, what condition the property is in and how well off the company is in the amount of equipment it owns.

Physical Operation

There are a maze of figures reported by the railroads each year on traffic statistics but the average investor finds little satisfaction in perusing these figures, being content, as a rule, to merely look at the dollars and cents return for the year. There are, however, some vitally important guides to railroad efficiency revealed in these figures. It will be helpful therefore, to investors to have a few of the more important figures brought to their attention to show the improving efficiency of operation on this road. The accompanying table, headed "Traffic Statistics," is fully explained by the foot notes.

Maintenance

The accompanying table on Maintenance indicates clearly how well Missouri Pacific is maintained. The figures on maintenance of way and structure compare favorably with those of any road in the country with similar volume and character of traffic. On the whole, maintenance of equipment is well up to the standard. The maintenance of freight and passenger cars is particularly liberal.

All in all, Missouri Pacific has been well maintained since its reorganization and the property today is in excellent condition.

It will be particularly interesting to look into maintenance charges of the road for the current year because of its particular bearing on the earnings of the road this year. The roads have seldom shown such wide variance of maintenance policies as this year. It is a well known fact that in a great many cases where roads have reported net earnings considerably above the level of the majority of carriers the good showing has been made at the expense of the property. The net earnings of Mop for the first eight months of this year were far below the standard of the other southwestern roads, but the reason for this is at once manifest when the maintenance charges for this period are compared with the other roads. Frisco, Rock Island and Missouri, Kansas & Texas made some very sharp cuts from the maintenance standard of the previous year.

The roads in the order named expended 11.9%, 13.7% and 13.8% of gross earnings for maintenance of way and structure and made similar cuts in the maintenance of equipment expenditures, whereas Missouri Pacific maintained its property at a rate much closer to the 1920 standard and likewise its equipment.

Mop expended 17.6% of its gross earnings for the eight-month period for maintenance of way and a proportionately higher amount on its equipment. This is a very important point to bear in mind when comparing the respective showings of the southwestern roads for the first eight months of this year.

TABLE I—MAINTENANCE OF WAY & STRUCTURE

PER MILE OF ROAD AND PER CENT. OF GROSS.

	1913		1916		1918		1920	
Missouri Pacific	$1,278	14.9%	$1,650	17.5%	$2,026	16.3%	$3,390	20.8%
Rock Island	...	...	1,248	12.5	1,667	14.7	3,295	19.1
San Francisco	1,098	12.5	1,408	13.9	2,060	14.7	3,568	18.6
Mo., Kans. & Texas	1,217	14.3	1,976	20.8	2,471	17.6	4,321	22.5

MAINTENANCE OF EQUIPMENT.

	Per Locomotive		Per Freight Car		Per Pass. Car	
	1916	1920	1916	1920	1916	1920
Missouri Pacific	$3,600	$10,374	$153	$561	$1,376	$2,772
Rock Island	792	9,628	118	273	3,653	2,427
San Francisco	4,926	11,457	150	270	1,146	2,546
Missouri, Kansas & Texas.....	3,250	11,126	102	281	1,194	3,233

Equipment Owned

One of the biggest obstacles to the Missouri Pacific RR. at present is its lack of sufficient equipment to handle the increased volume of traffic of the last few years. This weakness is shown by the large hire of equipment debit balance the road has been reporting of late. Prior to 1918 this debit balance averaged about $1,500,000 per annum. In 1919 the debit balance amounted to $2,000,000, in 1920 to $4,300,000 and for the first eight months of 1921 to $1,900,000. Annual charges of these proportions are quite a handicap to the road and until the road becomes able to handle its traffic with more of its own equipment it will have considerable difficulty in making a good showing on the preferred stock. However, this is a difficulty which the road will no doubt overcome in the near future.

Earning Power and the New Capitalization

We now come to the all important question of relationship between earnings and the new capitalization. By relationship we mean the extent to which past and present earnings cover the road's fixed charges and what amount would be available for the preferred and common stocks.

Any effort to ascertain what the road may be expected to earn on the present capitalization should not, of course, be based on the current year's earnings or on the earnings in the period of Government control. If we take the earning power of the road prior to the year of reorganization, we get some idea of what the road may be expected to do when the wheels of industry throughout the country are again turning at normal and the relationship between prices and railroad labor wages are properly adjusted.

On the basis of present capitalization the earnings of the road in 1916 would have covered the fixed charges 1.4 times over, the preferred dividend in full and left a balance of about .50 a share for the common stock. In 1915 earnings would have been sufficient to cover about 40% of the 5% preferred dividend; in 1913 there would have been a balance of approximately $3 a share on the common, and in 1912 about the same showing as in 1915. These calculations are based on a normal hire of equipment and joint facility debit balance as indicated in the previous paragraph headed "Equipment Owned."

The figures would seem to indicate that the road should have no trouble in earning its fixed charges under almost any circumstances.

This statement is further substantiated by the operations for the current year. 1921 has been a year of hard sledding for the railroads. With the volume of traffic far below normal, labor wages at their peak up to July 1st and the cost of fuel and materials and supplies not very far below their highest levels, it can readily be appreciated in what a tight fix the roads have been. Missouri Pacific for the first nine months of the year reported earnings at the annual rate of about 30 cents a share on the preferred stock. This showing does not compare very favorably with those of the other southwestern roads but it must be remembered that Mop did not skimp its maintenance charges to anywhere near the extent of its brother roads. More than likely for the balance of the year Mop will make a better showing than any of the other southwestern roads (as it has done for the past two months), for it will not have as much deferred maintenance to make up. The road should finish the year with a substantial balance in excess of interest requirements.

If Missouri Pacific can do so well in a year such as the present one and without sacrificing maintenance it should be well able to fully cover the 5% dividends on the preferred under normal conditions and show a balance for the common stock.

Financial Position

There was a time when one could obtain a pretty clear idea of the financial status of a road by a study of the balance sheet, but this was before the Government took over the roads and proceeded to put the financial accounts of the carriers in a very mixed and involved state. When the roads were turned back to their owners there was not a carrier whose balance sheet did not reveal a maze of credits and debits with the Government and a condition of complete unsettlement with respect to Federal compensation and maintenance charges. As a result it is extremely difficult to obtain an accurate picture of the financial position of any road. As a general statement none of the roads are in a strong financial position to-day. All are awaiting the final settlement with the Government, which is expected to be consummated some time this year. Missouri Pacific only recently made a settlement with the Government for $9,000,000, but this did not include compensation for the six-month period of 1921. A large part of this settlement probably went toward paying off current liabilities.

TABLE II—TRAFFIC STATISTICS

(MISSOURI PACIFIC)

	1913	1916	1920
1. Freight train miles	14,196,563	12,904,443	12,919,816
2. Average No. of tons per loaded car..............	18.1	19.3	24.1
3. Average revenue train load (tons)...............	373.3	463.0	562.4

4. This item indicates the number of revenue freight tons carried on mile per mile of

EXPLANATION OF ITEMS.

1. The declining number of miles freight trains travel while the volume of traffic is increasing indicates increasing efficiency in the handling of the traffic.

2. One of the reasons for the declining number of miles travelled by freight trains is the increasing number of tons of revenue freight carried by each freight car. This obviously is a saving in railroad operation.

3. This item indicates the increasing efficiency which is indicated in item No. 2 on a larger scale. Not only are there more tons carried per loaded car, but there are more tons carried per loaded freight train.

4. This item indicates the number of revenue freight tons carried one mile per mile of road. The higher the figure the better, for it indicates an increasing amount of traffic obtained from each mile of road operated.

Status of Bonds

The underlying bonds of the roads offer attractive possibilities at current levels. As is to be expected, these bonds do not enjoy as high an investment rating as the underlying bonds of such roads as New York Central, Southern Pacific, etc., but at the same time it would seem that this lower rating gives investors opportunities

(Continued on page 73)

Southern Pacific—Pacific Oil

Recommendations of Richard D. Wyckoff Staff, Made Last December, Fulfilled Despite Criticisms

ON December 1, 1920, the Richard D. Wyckoff Analytical Staff filed with its staff members its original report in connection with the Southern Pacific-Pacific Oil segregation. The report contained certain specific recommendations regarding the best course to be pursued by holders of the railroad stock. It was later published in THE MAGAZINE.

The references made in the report to the oil possibilities in the Southern Pacific Co., beginning with a forecast that the company was bound to win the case in the Supreme Court, were criticised rather widely by those not familiar with the facts and who were not aware of the values in the case. In view of this criticism, and subsequent developments, we print the following recent Staff report:

"On December 3, 1920, we issued a report on the situation created by the proposed segregation of the oil lands of the Southern Pacific Co. and their transfer to the new Pacific Oil Co., the stock of which was to be offered to Southern Pacific shareholders at the price of $15 a share. This report, headed 'What Course Should Southern Pacific Holders Follow?' urged upon Associated Members the advisability of selling their Southern Pacific stock around 105, the then prevailing price, and purchasing with the proceeds thereof three times the amount of Pacific Oil's 'rights' and shares, the rights to subscribe to Pacific Oil stock at $15 a share being then quoted at about 21. As was shown at the time, the holder of 100 shares of Southern Pacific stock could have realized approximately $10,500, the proceeds of which were to be employed as follows:

Purchase of 300 'rights' at about $21	$ 6,300
Cost of subscription to 300 Pacific Oil shares at $15	4,500
Total	$10,800

"That this advice has proved extremely profitable for those who adopted it is now quite apparent from the market action of the two stocks in question. Today, Southern Pacific is selling around 78, which price would be equivalent to about 99, with the value of the Pacific Oil 'rights,' namely, $21, added, or about $6 a share below the price which prevailed at the time the switch was recommended. On the other hand, Pacific Oil stock is now selling around $43 a share, so that holders of the stock who acted on the recommendation described above now have a clear profit of $7 a share on three times the amount of stock that could have been purchased with the proceeds of their Southern Pacific shares. In other words, the result of the operation is as follows:

Value of 300 shares of Pacific Oil stock at current price, $43	$12,900
Total cost of 300 shares Pacific Oil stock	10,800
Profit to date	$2,300

"Expressed differently, the present price of Pacific Oil stock is equivalent to a price of about 126 for Southern Pacific.

"Now is this all of the story? Southern Pacific is still paying $6 a share annually and is not likely to increase this disbursement for a considerable while to come. On the other hand, Pacific Oil is paying $3 a share annually, and will in all probability increase the rate when its properties are more fully developed, as that, instead of receiving only $600 income annual on the 100 shares of Southern Pacific stock formerly owned, the holder of 300 shares of Pacific Oil is now receiving an income of $900 annually, with every prospect of enjoying a considerably increased income at no distant date."

Since the above report was filed, Pacific Oil sold at 47, equal to 141 for Southern Pacific.

Will Atchison Be Another Union Pacific?

Increased Dividend Seems Justified

By **JOSEPH F. HARTLEY**

A NOTED financier once made a coup by anticipating a ten per cent dividend for Union Pacific and some long-sighted investors see in Atchison a possible repetition of the Union Pacific performance.

Atchison is undoubtedly the strongest road in the United States today and is growing stronger each month. But five other roads can be considered in the same class with Atchison, each of which is paying higher dividends or has made a stock distribution. The table herewith shows very graphically the real strength of this road as compared with five other gilt edge roads.

EARNINGS BY YEARS AVAILABLE FOR COMMON

Based on Government Guarantee for 1918, 1919, and Eight Months of 1920

Year	Atchison	C. B. & Q.	Un. Pac.	Ill. Cent.	Louis. & N.	Sou. Pac.
1916	$15.18	$21.47	$10.10	$10.80	$23.56	$12.63
1917	8.34	18.00	16.89	13.90	22.75	17.65
1918	10.80	10.54	12.87	10.03	14.51	10.38
1919	16.55	20.79	13.69	11.14	15.40	11.04
1920	13.98	20.47	12.90	12.41	10.92	9.50
Total	$64.85	$91.27	$66.45	$58.28	$87.14	$61.20

All of the roads mentioned in this table are paying more than 6% except Atchison and Southern Pacific and the latter road has cut a melon within the last year that is worth $25.00 per share to the stockholders considering the present price of Pacific Oil. Counting this $25 as extra dividends on Southern Pacific, the following comparison shows that Atchison stockholders can reasonably expect to receive an increased dividend in the near future.

Atchison: Has earned $64.85 in the past five years and paid out $30.00. Note that in the last two years it has earned more than any other road in the list with the exception of Burlington, and this road recently increased its dividend from 8% to 9%. Atchison could have paid out 10% for the last five years and still added $14.85 per share to surplus.

C. B. & Q.: Has earned $91.27 in the five year period; has paid out $40.00; increased its dividend to 9%; and made this dividend increase notwithstanding it was forced to refund its bonds at 6½% against an original issue of 3½%.

Union Pacific: This road, while it has earned but $1.60 more than Atchison, has paid out $50.00 while Atchison paid $30.00.

Illinois Central: Has earned $6.57 less than Atchison and paid out $35.00 or $5.00 more in the past five years than the latter road.

Louisville & Nashville: Although this road has shown a steady decrease in earnings over the five years, it has continued to pay out 7% and a stock dividend has been approved by the stock holders.

Southern Pacific: As stated above has declared a stock dividend worth $25 which with regular dividends means that stock holders have received the equivalent of $55.00 per share during the period although the road has earned less than Atchison.

Situation Today

Situation today based on latest earnings. Available for common:

Atchison is earning at the rate of $19 per share for 1921 and selling at 85.

C. B. & Q. is earning at the rate of $12.33 per share for 1921 and selling around 160.

Union Pacific is earning at the rate of $10.37 per share for 1921 and selling around 120.

Illinois Central is earning at the rate of $12.50 per share for 1921 and selling around 97.

Louisville & Nashville is not covering charges and selling around 106.

Southern Pacific is earning at the rate of $8.07 per share for 1921 and selling at 78.

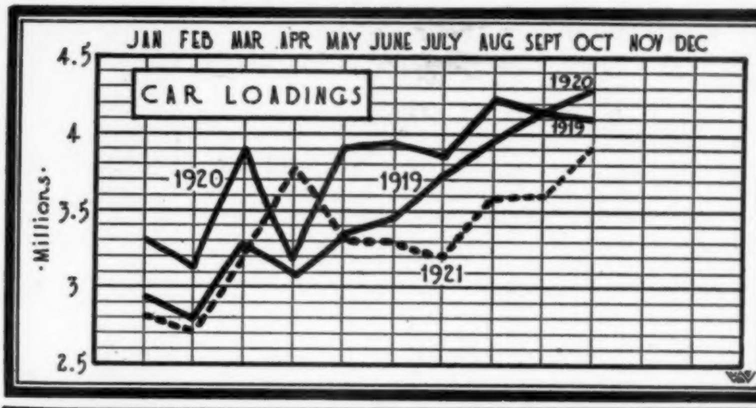
Conclusion

If any road in the United States is justified in increasing its dividend rate it is Atchison.

September Rail Earnings Hold Up Well

Gross Earnings Below Those of Previous Months But Net Shows Further Increase on Many Roads

THE railroad peak in net earnings, which was reached in the month of August, was well sustained in September despite the fact that gross earnings were slightly lower on practically all the roads. The decline in gross earnings seems to have been entirely due to voluntary reductions in freight rates on practically all commodities. Otherwise there is no accounting for the fact that gross earnings declined in the face of heavier car loadings than in the previous month. If rates had remained stationary, gross earnings, if anything, should have been larger. That the reduction in rates must have been general, furthermore, is indicated by the fact that gross earnings declined to about the same extent in all sections of the country.



October Earnings Should Surpass

Earnings for the month of October should surpass any previous month of the year. Business activity throughout the country showed further improvement and car loadings totaled over 900,000 cars in every week during the month, with the exception of the week ended October 8, in which period the loadings amounted to 895,740 cars. The movement of traffic for the week ended October 22 was the heaviest in almost a year, amounting to 962,292 tons or only 1½% below the corresponding week of 1919 and 4.6% below the corresponding week of 1920.

CLASS I ROADS.
(000 omitted)

	Net oper. income	Month's normal earnings to give a 6% return
January	D$958	$67,272
February	D7,378	56,599
March	30,695	81,089
April	29,249	80,487
May	37,080	92,736
June	52,485	99,078
July	69,485	93,267
August	90,000	105,000
*September	85,000	113,000

*Estimated.

It would not be at all surprising if the net operating income for the 203 Class I roads equalled $100,000,000 for October or better than at the annual rate of 5% on the invested capital.

Outlook Promising

With the country slowly but surely getting back to normal and the movement of traffic reaching larger proportions each succeeding month, the outlook for the rails becomes more and more promising. The all-important problem of rates and wages is still unsettled, but the recent backdown of the railroad labor unions brings a satisfactory settlement of both questions for the railroads to a very much nearer conclusion. The statement of the union leaders that the strike was called off because the Railroad Labor Board promised to put aside the question of a further wage re-

(*Continued on page* 56)

ANALYSIS OF RAILROAD EARNINGS FOR FIRST 9 MONTHS OF 1921

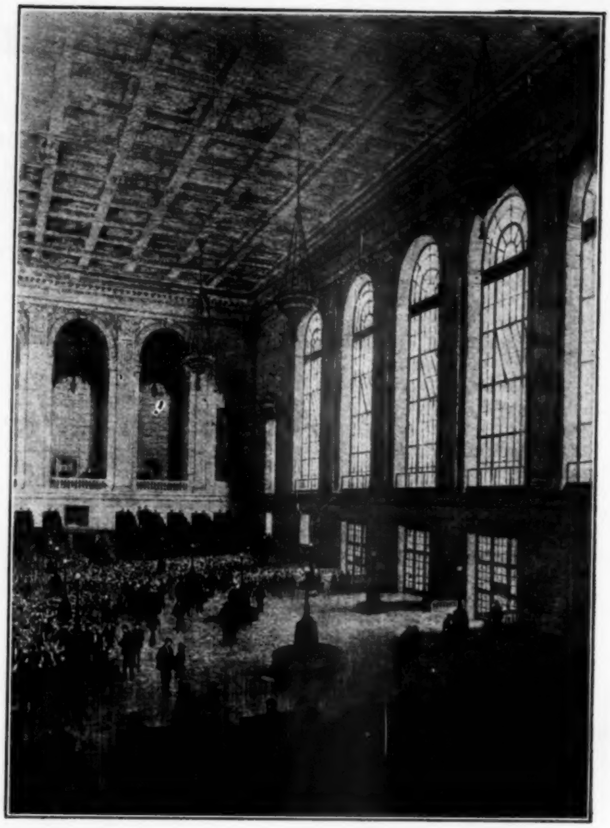
The following table is compiled on the assumption that the first nine months represent 72.2% of the traffic year, as they did in the test period:

Road	Net Oper. Def.	% Charges Earned	$ per Sh. on Pfd.	$ per Sh. on Com.
Atchison	......	......	......	$17.60
Atlantic Coast Line	......	......	......	.50
Baltimore & Ohio	......	......	$2.50	......
Canadian Pacific	......	......	......	10.35
Chesapeake & Ohio	......	......	......	6.90
Chicago & E. Ill.	......	85%	......	......
Chicago Great Western	......	98	......	......
Chicago, Mil. & St. Paul	......	19	......	......
Chicago North Western	......	75	......	......
Chicago, R. I. & Pacific	......	......	......	3.50
Cleve., Cin., Chic. & St. L.	......	......	......	3.00
Colorado & Southern	......	......	......	9.65
Delaware & Hudson	......	......	......	11.40
Delaware, Lack. & Western	......	......	......	(a) 12.65
Erie	......	26	......	......
Great Northern	......	......	......	.25
Illinois Central	......	......	......	12.80
Kansas City So.	......	......	......	5.00
*Lake Erie & Western	$191,421	......	......	......
Lehigh Valley	......	66	......	......
Louisville & Nashville	......	91	......	......
Minneapolis & St. Louis	564,767	......	......	......
Missouri Pacific	......	......	.30	......
New York Central	......	......	......	4.30
N. Y., Chicago & St. Louis	......	......	......	(b) 9.30
N. Y., New Haven & Hartford	3,019,179	......	......	......
N. Y., Ontario & Western	......	......	......	.90
Norfolk & Western	......	......	......	5.60
Northern Pacific	......	100	......	......
Pennsylvania	......	......	......	.40
Pere Marquette	......	......	......	4.25
St. Louis, San Francisco	......	......	......	7.05
St. Louis Southwestern	......	......	......	.05
*Seaboard Air Line	......	23	......	......
Southern Pacific	......	......	......	(c) 6.00
Southern Railway	......	74	......	......
Texas & Pacific	......	(g)	......	......
Union Pacific	......	......	......	10.70
Wabash	......	97	......	......
Western Maryland	......	......	(f) 3.00	......
Western Pacific	......	65	......	......
Wheeling & Lake Erie	......	......	(e) 4.40	......

*Earnings are on the eight-month basis.

(a) $50 par value. (b) After 5% on the common stock, all classes of stock share equally. (c) Without oil income and after capital adjustments. (d) Including Denver & Rio Grande and after proposed adjustments. (e) On the 7% prior preference stock. (f) On the 4% 2nd preferred stock. (g) The road is just covering the interest on the 5% Adjustment Mortgage Bonds.

Opportunities in the Curb Exchange



Market, Now Indoors, Contains Many High-Grade Securities — Four Prominent Companies Analyzed

***By* FRED L. KURR**

PREJUDICE that has existed in the minds of investors against purchasing any security on the New York Curb market has been largely eradicated since the New York Curb Association abandoned the open air spaces of Broad street and moved into its very sumptuous quarters on Trinity Place.

It has been an important change for the better. The Association has adopted the rules of trading laid down by the New York Stock Exchange in the more important particulars, and what is still more important there is now a Curb ticker. This gives the light of day to every transaction and is a most important safeguard for the buyer and seller of Curb securities. For example, in the old days on Broad street the specialist in xyz common when asked to give his market for the stock might quote twelve bid, fifteen asked, with the actual market according to orders on his books thirteen bid, fourteen asked. Now suppose that at 10.30 an order came to the specialist to buy 100 shares at the market, he would sell it at his offered price of fifteen. Under present arrangements this sale would immediately be printed and the specialist would be checked up and probably get into trouble, but under the old system this sale might be kept under cover for an hour or two to the advantage of the specialist and the disadvantage of outsiders with orders in the stock. While unfair trading methods on the Broad Street market were, perhaps, not the rule, they occurred frequently enough to sour the general public on Curb securities.

The improvement in Curb trading methods deserves the support of the public, and THE MAGAZINE OF WALL STREET does not hesitate to recommend to its readers' attention stocks listed on the New York Curb market that have good possibilities as investments or speculations. The stocks of the four companies discussed in this article are well worthy of consideration and enjoy an active market on the Curb Exchange.

International Petroleum Co., Ltd.

Well Established in South America—Shares Should Sell Higher

WHERE will the oil of the future come from? Practically every oil man will answer this question with the words "South America." There is a great difference of opinion among oil experts as to the probable life of the Mexican fields. One thing is sure, however, the output from the Mexican fields cannot be maintained at anything like the volume of the past several years. Oil consumption continues to increase steadily year by year and there is no doubt but that this consumption will continue to grow. New oil fields must be developed to meet the situation and it is a thoroughly demonstrated fact that in South America there are huge supplies of oil that up to the present have hardly been tapped.

The greatest oil interests in the world have realized the possibilities of South America for some time and in the past few years oil concessions have been eagerly sought in that continent. International Petroleum Co., Ltd., has acquired huge concessions in South America and undoubtedly will be one of the dominant interests in that field.

In considering South American oil possibilities there are two very important points to bear in mind. The first is time. Many of the South American oil fields have little or no transportation or storage facilities and time will be required to develop these facilities. The second is money. Huge sums will have to be spent in development work and to provide for transportation. Only companies with millions to spend, therefore, can be regarded as having bright prospects in South America.

If International Petroleum were an independent company with only moderate resources, its future could be regarded with a good deal of doubt, but with Standard Oil millions and management behind it, in the opinion of the writer, great things are in store for this company in the future. The preferred stock has the voting power and practically all of these shares are owned by the Imperial Oil Co., Ltd., of Canada, which in turn is controlled by the Standard Oil of New Jersey. The common stock has no voting power.

South American Holdings

Let us now see just what the company's interests in South America are. Through its subsidiaries, the London & Pacific Co., Ltd., the Lagunitos Oil Co., Ltd., and the West Coast Oil Fields Co., it has ninety-nine year leases on large petroleum claims in Peru, considered to be among the most valuable oil properties in South America. There is a 10,000 barrel refinery at Talara, Peru, and distributing stations at Payta and Callao, Peru, and at several points in Chili. In 1920 about 1,900,000 barrels were produced from this property, as compared with 1,750,000 in 1919. It is by far the largest producer and refiner of oil on the west coast of South America. It is the opinion of people well informed as to the possibilities of these Peruvian properties that, if development work is pushed, there should be a steady increase in production here for years to come.

The greatest possibilities of International Petroleum, however, lie in its enormous holdings of oil concessions in Colombia. Through its subsidiary the Tropical Oil Co., the company controls the oil rights of 2,000,000 acres. In 1920 three test wells were drilled on this concession and they

came in with an average flow of about 5,000 bbls. per day. The company recently acquired an island at the mouth of the Magdalena River, Colombia, on which it intends to erect a refinery with a capacity of 25,000 bbls. per day. A small plant, with a refining capacity of between 2,000 and 3,000 bbls. daily, has been erected at the junction of the Magdalena and Rio Sogomosa Rivers. This refinery is to be used to take care of Colombia's present oil requirements of about 800,000 annually. It will mean much cheaper oil for Colombia and as a result consumption is expected to double or treble within a short time.

Another important development planned is the laying of a pipe line from its concession to tide water, a distance of 300 miles. Altogether it is estimated that International Petroleum plans to spend from $20,000,000 to $25,000,000 in developing its Colombia holdings over the next few years.

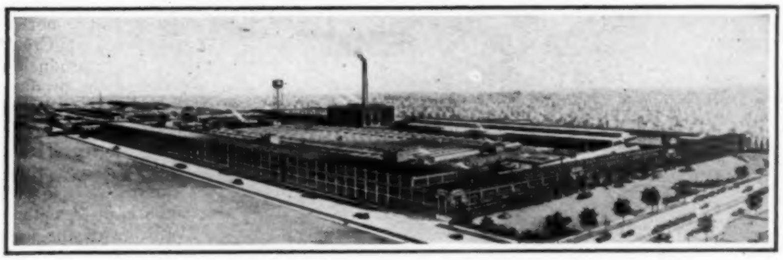
No statement of earnings has as yet been issued by the company, nor has it published a balance sheet. Investors are somewhat in the dark, therefore, as to the exact status of the company, but this is recognized as an old policy of the Standard Oil, and does not give rise to mistrust, as might be the case if International Petroleum were dominated by other interests.

Capitalization

The present company was organized in Canada in August, 1920, to consolidate the business of the old company and the Tropical Oil Co. Stockholders of the latter received one and one-tenth share of stock in the new company for each share held. The present capitalization of the company is as follows: Preferred stock, par value $5, 100,000 shares outstanding; common stock, no par value, 7,123,544 shares outstanding; the company has no funded debt. An initial dividend of 25 cents a share was paid in January, 1921. No dividend has been paid since, but it is rather expected that another one will be paid early next year.

No story would be complete on International Petroleum without a word as to its Mexican property. Of course no one knows how long lived this will be, but the company has made a very good showing in this field in the past two years and it is hoped that it will be able to maintain production on a large scale at least until its South American properties are developed in a big way. In 1920 the company's output of Mexican crude totaled nearly 8,000,000 bbls., and output for 1921 is expected to largely exceed this amount. International has three completed wells in the Toteco district, and is reported to be moving at the present time 80,000 bbls. a day through its two ten-inch pipe line.

It is true that seven million shares is a good deal of stock, and the investor who buys this stock with the idea that it may move up 50 or 100% in a few months' time is probably due to be very much disappointed. **It is more in the nature of a long pull proposition that the stock looks attractive. Earnings from the South American properties may be expected to show steady increase for years to come. This should ultimately bring about higher levels for the stock.**



Continental Motors Corporation

Supplies Motors for Many Standard Makes—Attractive for Long Pull

ONE of the biggest factors in the progress of both pleasure car and motor truck building in the United States has been the development of the standardized gasoline engine by Continental Motors. These engines are widely distributed among manufacturers of pleasure cars, commercial trucks and tractors. Among the large number of well known makes using the Continental Motors are the Paige Detroit, Westcott, Velie, Moon, Jordan, Lexington, Case, Federal Motor Truck and Republic Motor Truck.

There is to be an important addition to the family of cars that are using this well known motor. Durant Motors, Inc., has placed an order with Continental aggregating approximately $20,000,000. Deliveries will begin on a large scale as soon as Continental equipment can be revised and are to be at the rate of 150 motors daily.

From the time of its incorporation in January, 1917, up to and including the year ended October 31, 1920, this company has shown a steady increase in the volume of business handled, and in earnings. The first set back has been in the current fiscal year. Business fell off because of the general depression in trade and several millions of dollars had to be written off for inventory losses. Because of the growing demand for truck motors the company in 1920 went to considerable expense in increasing the capacity of its plant at Muskegon, Mich. This, combined with the poor business in 1921, cut rather heavily into the company's cash and the management decided to adopt the conservative course and suspended dividend payments on the common stock in March, 1921.

As is well known, the list of corporations that reduced or passed their dividends in 1921 is a long one. Even dividends on supposedly high grade preferred stock went by the board in many instances. The point in all this is that the passing of dividends in this year does not necessarily reflect any discredit on the management of the company or indicate that the company is on the down grade. Many companies are absolutely obliged to keep reasonably large inventories in order to do business and protect their customers on deliveries, and when the slump in prices came losses on these inventories had to be taken.

Rapid Recovery Likely

Many companies have been hit so hard that it will take them a long time to recover and there will undoubtedly be some reorganizations, others are still faced by very unfavorable trade conditions that will be slow in improving, while others are simply waiting for general conditions to improve to go ahead with full steam up and make a quick come back. It is the opinion of the writer that Continental Motors is in the latter class. The Continental Motor is as popular as ever and deservedly. These motors have stood the test of time and have come through, they compare favorably as to price and worth with any motor manufactured at the present time. While it is true that the company has had to take some losses this year, it is by no means in a weak financial condition and is able to carry all the business it can get.

In the year ended Oct. 31, 1920 the company earned $1.86 a share on the common, as compared with $1.77 the previous year. In these two years nearly five million dollars was put back into the property from earnings. Working capital of the company as of Oct. 31, 1920, was $7,400,000, as compared with $4,500,000 in 1918. No accurate estimates are available as to just what the company will earn in the current fiscal year but it is believed that the preferred dividends will be covered and perhaps a small balance left for the common. All things considered this would be a very fair showing.

The company's capitalization consists of $5,000,000 7% notes, due $500,000 April 1, 1922, $750,000 each April 1, 1923-24, and $3,000,000 April 1, 1925. There is an authorized preferred stock issue of $3,500,000, of which there was outstanding as of Oct. 31, 1920, a total of $2,151,700. This preferred stock is a 7% cumulative issue and is redeemable on April 1, 1920 at 104% and accrued dividends, and at 1% advance during each successive year for six years. Commencing April 1, 1918, a sinking fund provision requiring that 20% of annual net profits be diverted for retirement of the preferred went into effect; and up to the present time the company has purchased a total of $1,348,300 preferred in accordance with this provision.

Asset Value of Common

The common stock consists of an authorized issue of 1,500,000 shares, par value $10, of which 1,460,725 are outstanding. The laws of Virginia, under which the

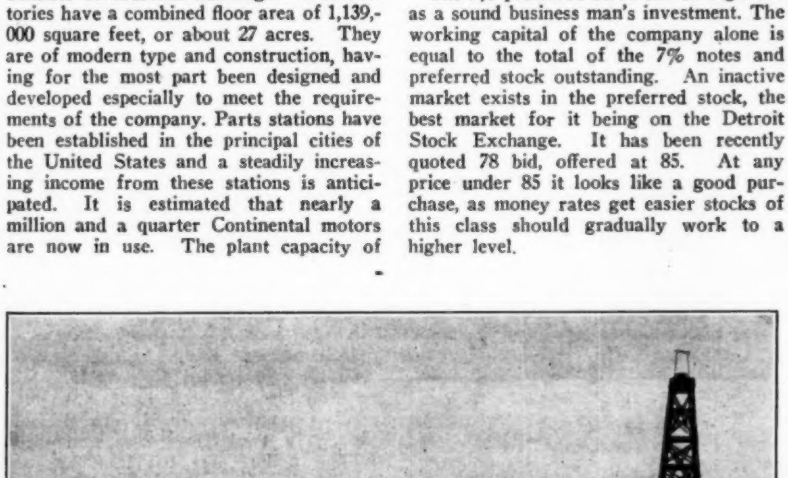
company was formed, require a statement of assets for valuation of common stock issues, in pursuance of which Continental Motors carries its common stock in its balance sheet at $7,295,370, or about $5 a share. This represents net assets exclusive of special tools, dies, jigs, fixtures, patterns, designs, drawings, patents and good will. Since this value was placed on the common stock the company has added over $6,000,000 to the company's property from earnings, so that actual assets behind the stock at the present time are between $9 and $10 a share.

Continental Motors confines its operations almost exclusively to the manufacture of gasoline engines. For this purpose it has two plants, one located at Muskegon, Mich., and the other at Detroit. The Muskegon plant comprises seventeen buildings and is advantageously situated with regard to transportation facilities by both rail and water. The Detroit plant consists of fourteen buildings. The factories have a combined floor area of 1,139,000 square feet, or about 27 acres. They are of modern type and construction, having for the most part been designed and developed especially to meet the requirements of the company. Parts stations have been established in the principal cities of the United States and a steadily increasing income from these stations is anticipated. It is estimated that nearly a million and a quarter Continental motors are now in use. The plant capacity of the company has been nearly doubled in the past two years and the capacity output at the present time is around 300,000 motors a year.

At present prices of around 5½ the common stock is selling close to its record low price. In 1921 7⅞ was high and in 1920 it sold up to 14⅜. At current levels the stock appears to have excellent speculative possibilities. It is true that dividends may not be resumed very shortly because the company is rapidly retiring its preferred stock and also has to meet a $500,000 note payment on April 1, 1922. While these payments on capital account tend to keep common dividends down for the moment the position of the common stock is being strengthened by every payment and sooner or later this benefit should be reflected in the price of the common stock. It looks like an attractive speculation for a long pull.

Preferred Stock

The 7% preferred stock can be regarded as a sound business man's investment. The working capital of the company alone is equal to the total of the 7% notes and preferred stock outstanding. An inactive market exists in the preferred stock, the best market for it being on the Detroit Stock Exchange. It has been recently quoted 78 bid, offered at 85. At any price under 85 it looks like a good purchase, as money rates get easier stocks of this class should gradually work to a higher level.



Merritt Oil

Shares Now Selling "Ex-Oil Boom"—Company in Good Position

IN the midst of the oil boom in the latter part of 1916 Merritt Oil made its first bow to the public. The stock had been offered for subscription at $9 a share and was heavily over-subscribed. Public trading started at around 14 and the stock, with minor reactions, steadily climbed upwards until its record high price of 43½ was reached. There apparently was never any justification for the stock selling at so high a figure and the fact that it reached these levels was undoubtedly due to the wild speculation going on in the oil shares at that time. In other words the last twenty-five points of that advance should never have occurred.

At present prices of around $11 a share Merritt is selling "ex-oil boom" and "ex-fireworks" and its possibilities as semi-speculative oil investment are well worth looking into.

Big Muddy Field, Wyoming, is where this company gets its production and it is the dominating factor in this district. The company owns under lease a solid block of 6,620 acres, of which 3,500 are considered absolutely proven as a result of development work thus far carried on. Of great importance is the fact that its producing acreage is contained in a solid block, which permits saving the large expenses encountered by companies whose acreage is scattered and in small tracts and who have to compete with other companies drilling offset wells on all sides. In crowded fields it has often been found necessary to drill several wells to the acre in order to prevent companies operating nearby from draining off all the oil from under the property.

The fact that a big tract is held intact undoubtedly means a longer production in the field than would otherwise be the case. The Merritt Co. has carried out a conservative drilling campaign with an eye to the future. In the Big Muddy Field there have been encountered thus far three commercially productive oil sands, one at 1,100 feet, known as the Shannon sand and furnishing small producing wells, the second at 2,000 feet, which is a stray sand and the third known as the Wall Creek sand at 3,000 feet. From these sands alone there is every reason to believe that the company will be able to maintain its present output for many years to come. There are other possibilities in the property, however. The second or third Wall Creek sand should be found in the Big Muddy Field at about a depth of 3,700 feet. This sand has not been thoroughly tested as yet by the company and it is believed likely that another large reservoir of oil may be found at this level.

Development Possibilities

That the testing of this second Wall Creek sand is of importance is indicated by the experiences of producers in the Salt Creek Field, the principal field in Wyoming, which is about forty miles to the northeast. For many years the Salt Creek Field has been furnishing large producing wells from the first sand and the producing limits of this sand determined the proven area of the field. In drilling to the deeper sand, however, it was found that the wells produced much larger quantities of oil and that the second Wall Creek sand extended over a much wider area than the first sand. In 1918 one of the first wells drilled into the deep sand at Salt Creek flowed at the rate of 20,000 barrels daily.

It can be seen, therefore, that while Merritt Oil, on what it has already developed, has apparently a long life ahead as a producer, there is also a good chance of striking bigger production at lower levels and thus materially increasing its production.

For the year ended Dec. 31, 1920, the company earned $1.20 a share on its 780,000 shares outstanding. This was after deducting $1,390,282 for depletion and depreciation. During the major portion of the 1920 year, however, the company received $2.75 per barrel for its oil. The price of Big Muddy oil dropped this year as low as 50 cents a barrel, but the company sold little at that price as it cut down its production and put large quantities in storage.

The company is in excellent financial condition, with a working capital of over $1,500,000. The recent advance in the price of crude oil has, of course, been of material benefit and while operating results for the year 1921 are likely to be poor,

the outlook for 1922 is reasonably bright. Production of the company in the past has run as high as 6,000 barrels a day. At the present time it is somewhere between 4,000 and 4,500 barrels. With higher prices for crude oil prevailing the company will no doubt do more development work, this having been largely suspended in the current year. It is quite likely that within a year's time this company's production will have been materially increased.

Midwest Refining Control

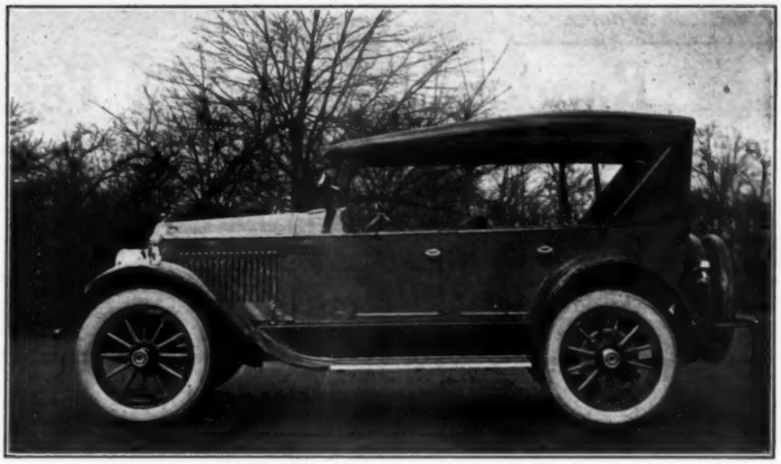
Merritt Oil Co. is generally regarded as being well sponsored. In 1917 the Midwest Refining Co. acquired a substantial stock interest in Merritt Oil and since that time has added to its holding. At the present time control rests with the latter company. Just what price the Refining company paid for its stock is not known but it is understood that its holdings average it something over $25 a share. When the Refining company obtained control there was considerable doubt expressed as to just what it would mean for Merritt Oil, but in the light of subsequent events these misgivings have been shown to be ill founded. Merritt Oil, it is true, sells its entire output to the Refining company but it has always received a fair price which has worked to its advantage because it has assured a ready market for Merritt's oil at all times.

One point to remember in regard to Merritt Oil is that Wyoming wells are known to be long-lived. Old wells that once appeared to be all through as producers in this field have been cleaned out and have continued their production for years at a fair rate. In 1920 a systematic cleaning out program was inaugurated by Merritt Oil and vigorously pursued throughout the year. This cleaning out resulted in a substantial increase in production from a number of wells. At the present time the company has about 120 producing wells. This is a comparatively small number compared with the company's large area and oil experts have expressed the opinion that the company could probably put down a thousand more wells without unduly crowding its production.

At the present time the price of crude oil in the Salt Creek and Big Muddy Fields is 90c a barrel. This is less than the price of greatly inferior oil produced in Mexico, where crude is selling at $1 a barrel at the well. Mexican crude yields about 10% or 12% of gasoline and the rest is fuel oil. Wyoming crude yields from 40% to 80% gasoline, under cracking methods, and it is further valuable for its lubricating fuel and wax fields.

Capitalization of Merritt Oil consists of 780,000 shares of stock of a par value of $10. There are no bonds or preferred stock. At present prices of around $11 a share for the stock the property of the company is selling for $8,580,000. It is quite certain that no property of equal possibilities could be purchased for anything like that price.

In view of the fact that earnings for 1921 will show up poorly an immediate resumption of dividend payments on Merritt Oil stock may not take place (dividends were discontinued in August this year) but in view of the possibilities for the future in this property the stock can be regarded as attractive for the long pull.



Packard Motor Car

One of Most Efficiently Managed in Motor Industry—Large Asset Value Behind Shares

FOR years the Packard Motor Car Co. has been regarded as having one of the most efficiently managed concerns in the automobile industry. Its record has truly been a remarkable one. From 1911 up to and including 1920 there has been a steady increase in sales, every year making a better showing than the preceding one. As can be seen by the accompanying table, sales in 1920 were more than five times the sales in 1911. Last year the company made the first radical departure in its policy by putting out a moderate priced car known as the Single-Six. This car was put out after experiments covering several years of time had been made.

In order to manufacture this new car on a large scale a big outlay of cash was required and it is estimated that close to $15,000,000 was required to put the new model over. In order to help finance these requirements a $10,000,000 issue of 8% ten year bonds were put out April, 1921. The financial strain on the company, however, has been a pretty severe one, especially coming as it did in a period of general business depression and tight money. It completely explains the passing of the common dividend in January of this year, and the fact that there is doubt in many investors' minds as to whether the preferred dividend will be maintained.

According to the last balance sheet of the company available Feb. 28, 1921, notes and accounts payable totaled $11,300,000, but since that date the ten million bond issue was put out so that the company at the present time is in a much easier position financially. The writer does not see any cause for alarm in the Packard situation. The new model has been expensive to put out, it is true, but the main point is that it is a decided success and there is every reason for believing that it will prove to be a money maker. The Packard management are certainly not showing cold feet at the present time, being one of the few companies that plan not only not to decrease productilon during the Winter months but actually to increase it. We have recently received a statement from President Alvan Macauley of the company to this effect and his statement should go a long way to dispel any idea that Packard is having serious financial worries at the present time. The statement follows:

"Taking advantage of the gratifying public approval of the Packard Single-Six, the Packard Company has decided to try the experiment not only of maintaining, but even increasing, during the Winter months, the rate of production which has obtained during the past Summer. This will be accomplished by the deep cut in the price of the Single-Six recently announced, to prevail during the Winter months. One of the chief considerations, impelling us to take this step, is that we expect by this action to do more towards relieving the unemployment situation than by anything else the Packard Company can possibly do.

"Relief of various sorts against conditions is to be commended, but what the American working public needs and wants is *work*. If there is no work they must have help, but what they want and need is *work* rather than *help*.

"One difficulty which is aggravating the unemployment situation in the motor industry is that the Winter season is now approaching when production is normally reduced to its minimum. The Packard Company will expect not to reduce at this time, but actually increase the number of its employees during the Winter months.

"The new price of the Single-Six is, we believe, without precedent in the industry. No Packard has ever before been offered to the public at so low a price."

Earnings

Packard Motor Car Co. issues a statement of earnings only once a year, covering the twelve months ended Aug. 31. For the year ended August 31, 1920 the

(*Continued on page* 70)

Random Notes on a Textile Success

Why Textile Industry Is Busy Today—How President Wood Rose

By JOSEPH F. PRESTON

WHEN it comes an hour or so before the 6 o'clock whistle blows in New England manufacturing cities, one sees light streaming from myriad windows of great textile mills while near at hand are foundries, machine shops, tool making plants, all kinds of manufacturing establishments where iron and steel and copper are fabricated, in total darkness. The textile mills are busy. The metal working establishments are either wholly closed down or working only part time.

The 57 mills of the American Woolen Company, employing close to 50,000 operatives, paying out approximately $1,000,000 per week in wages, are operating close to 100% capacity, full time in all the mills, overtime in some. The announcement has recently been made that this corporation will proceed at once with the building and equipping of new mills.

Why is it that in these times of widely advertised business dullness, with the steel and iron industry, the copper industry, the mining industry, operating at low levels, this corporation is able to do so well? How can the demand for textiles run at normal while the demand for iron and steel and copper runs at 50% under normal? Is there anything in the management of this corporation that sets it apart from others and renders it immune to the reputed general stagnation among other manufacturing establishments?

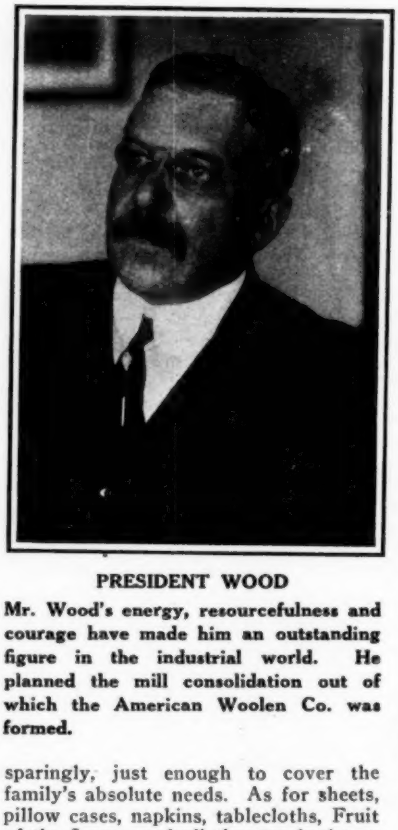
Several Reasons for Activity

There are several reasons why the textile mills in general and the American Woolen Company in particular should be doing well. One reason is that the world as a whole is ragged. It lacks clothes. Pretty much all the world wants clothes.

During the war 90% of the machinery of the American Woolen Company was devoted to the manufacture of cloth for soldiers' uniforms, blankets, tents and other war fabrics. While the war lasted production of the usual fabrics for which there is constant demand, such as medium priced woolens, worsteds, lining material, the usual run of tailor shop stuff, ran low. When the war ceased the demand for textiles during the flush times that followed Armistice Day was confined to high-priced fine wools. The old time customers with their demand for moderately priced fabrics were crowded out of the market and the call was for the finest of raiment, costly wools, silks, fur coats, etc. There was hardly any market for the homely reliable goods that for years had been the standby of American woolen manufacturers.

Today, the textile mill is catering to the housewife, who could not, or would not buy during the war and at war prices. It is the prerogative of the thrifty housewife to keep the linen closet well supplied and she has the final word in the purchasing of the family wardrobe. She knows cloths, fabrics, grades, quality, and better than all else she knows prices.

During the extremely high price period, this housewife bought very little. She patched and mended and waited. When positively obliged to do so she entered the market and bought sparingly, just enough to cover the family's absolute needs. As for sheets, pillow cases, napkins, tablecloths, Fruit of the Loom, and all the standard textiles that go to make up a well ordered linen closet, she hung on to what she had long after they should have been relegated to the ragbag. She knew that sometime, sooner or later, prices would come down to earth again, down somewhere within reason, down to her level—and she was right.



PRESIDENT WOOD

Mr. Wood's energy, resourcefulness and courage have made him an outstanding figure in the industrial world. He planned the mill consolidation out of which the American Woolen Co. was formed.

Prices for textiles have at last come down to reasonable levels and today the thrifty housewife is stuffing the ragbag with cast off sheets and worn-out napkins and table cloths, and patched and mended wearing apparel and is eagerly buying much needed textiles to replenish the family wardrobe.

American Woolen's 1920 Year

The year 1920 opened up most auspiciously for the American Woolen Company. Early in the year orders were received sufficient to keep all the mills at the peak of production for the entire year. Then things began to happen. First the government got after them. The management received a request from the department of justice to look over its books. They intimated that the company was exacting an unholy profit and under the terms of the Lever Act was actually defrauding the public. The American Woolen Company was paying the government in taxes more than five times the amount it was paying to its stockholders and nearly two-thirds the amount distributed to employes in wages. The government was its partner in crime, if crime there was, and yet it set up the cry of fraud.

Every possible facility for an elaborate and exhaustive examination of the company's books was afforded the government. The result of that examination was that the government was forced to admit that the company had been eminently fair and reasonable in its dealings with the public and with purchasers of its manufactured goods. An indictment was found in the District Court of the United States for the southern district of New York, based not upon any criticism of the business but upon claims with reference to certain special lines of merchandise manufactured in small quantities and according to unusual designs, to meet a demand from the flaunting extravagant queens, which it appeared was of a most transitory and uncertain character. The indictment was dismissed by the court.

On May 25, 1920, the board of directors of the American Woolen Company voted an increase in its capital stock of $20,000,000 at par, $100 per share, and a further increase of $20,000,000 in its preferred stock. This stock was offered to its stockholders at par in the ratio of one share of new stock for every three shares held. A syndicate took all stock not subscribed for by stockholders. Today the American Woolen Company is pointing the way to the laggards, operating at practically 100%.

The Story of President Wood

In looking back over the trying days of the past eighteen months we will have to take off our hat to the astute Mr. William M. Wood, president of the American Woolen Company. Through a most trying period he has weathered the storm with all colors flying and his corporation has emerged from this

(*Continued on page 64*)

Answers to Inquiries

JEWEL TEA

Has Probably Turned Corner

Last February the Magazine recommended Jewel Tea preferred as a good long pull speculation, and made a "clean hit." I bought some then at 25 and some more at 32.

Tea brokers, however, apparently regard the company as a "wildcat" proposition, claiming that it is losing business as the result of chain store competition, that it is heavily overcapitalized and deeply in debt, that it has an equity of not over $15 a share back of the preferred, and so on. Also some brokers advise against it, claiming that the shares can be manipulated to suit the insiders' pleasure; this argument, of course, having to do with its maintaining a good market price last summer when other issues fell.

Do you still regard it favorably in the light of present business or outlook? Are its earnings any better? Do you think the management is to be relied on? I have placed a "stop" on my commitment so that it will not show a loss, but, of course, would like it to show an even bigger profit than it does today. If, however, Jewel is what the "knockers" say it is, I would close out and look for something else that has a chance of making a "comeback" to somewhere near the place it occupied before the war.—E. J. B.

The preferred stock of the Jewel Tea Company has advanced from 8½ in January of this year to 41 last week. This reflects its improved financial and business status.

The company will now be able to meet its $750,000 note maturity on November 1st from its own cash resources; this being part of the $3,500,000 6% serial note issue of two years ago. There is only $3,640,000 of the 7% preferred outstanding and no dividends have been paid on it since the end of 1919, due to reverses sustained in a declining food market. These conditions resulted in a deficit of $2,183,000 in 1920 and of $1,801,000 in 1919.

The management effected a reorganization last year which has greatly improved the company's position. Radical changes in policies of buying and distributing merchandise have also been made so that its turnover is now from four to five times a year, against but two times formerly. Another thing: labor, upon which the company depends largely to carry on its business, is cheaper and more efficient. At the present time, therefore, this could hardly be called a "wildcat" proposition. The stock has further possibilities, but we would now consider a switch into Allis Chalmers at 33, or Pacific Oil around 42-44, paying $3.

VIVAUDOU COMPANY

Business Improving

I have been holding some Vivadou shares at much higher prices since the boom market in the middle of 1920. My shares are not registered in my name and I have not seen any report of any kind in many months. Great predictions were made for this company when the shares were first put out and I have been wondering whether I should throw my holdings overboard, or average, or just do nothing and wait for the stock to come back. Will you please give me some particulars and tell me what you think of the company and its shares.—B. J. J.

The Vivadou Company has not issued any financial statement or annual report since the publication of the annual report for the year ended August 31, 1920. As a stockholder you should be able to procure this pamphlet report by registering the stock in your own name and applying to the company whose address is Times Building, 42nd street and Broadway, New York City.

The company expects to have a statement for the year ended August 31, 1921, completed in a few days' time, and in your place we would secure the 1920 and 1921 reports.

As you are aware the entire market has declined and the stock of the Vivadou Company has suffered with the rest, it is also reported that a large lot of the stock held by an interest in the company was sold in the open market through the difficulties of the latter, but this has had nothing to do with the intrinsic value of the stock.

> **RULES OF THE INQUIRY DEPARTMENT**
>
> **Inquiries and opinions as to intrinsic value, earning power, and other facts and statistics about securities, will be answered free of charge subject to the following provisions:**
>
> **1. Those who send in inquiries must be regular subscribers—not newsstand buyers.**
>
> **2. All inquiries should be brief, with name and address legibly written or typed. Such sheets should not contain any reference to changes of address, remittances, complaints, etc., as these are handled by separate departments. The latter should be by separate letter.**
>
> **3. Stamped addressed reply envelopes should be enclosed to avoid mistakes.**
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> **4. A reasonable number of inquiries will be answered for each person during the term of a subscription, periodically. We reserve the right to reject inquiries from any subscriber who is imposing on the facilities thus provided.**
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>
> **7. Unless otherwise requested, we answer all inquiries BY MAIL. The inquiries in these pages are a few SAMPLES from the hundreds received. Our relationship with, and the business of, our subscribers is mutually confidential.**

The company has developed its export trade, sales last year amounting to about $350,000. The company exceeds this estimate in the current year and it is predicted that $1,000,000 in business will result, the company having received in excess of $500,000 of export orders last year.

The company has opened a new Paris factory, supplying the European and Oriental markets with its merchandise.

Gross sales for the last fiscal year totaled nearly $6,500,000, and gross profits were a little over $2,000,000. Expenses were rather high, but the company was able to show very nearly $1,000,000 earned for the year. Its dividend was rather generous, amounting to $450,000, and this, together with taxes, reduced the final surplus for the year to a little under $250,000. The company is in a good position financially and we believe the shares worth holding.

SAPULPA REFINING

Formerly a Weak Link Somewhere

Kindly state the plain facts and reasons which in your opinion are responsible for the present low market price of Sapulpa Refining Co. We hold 500 shares at an average price of $10.00 a share. It was always evident that Sapulpa was not in as strong a position as might have been, on account of having no production to speak of, and having to depend on an outside supply for crude at the then high prices. Now that crude is at lower levels, it seems as though the situation should be reversed and prove profitable for Sapulpa. If Sapulpa can't make any money now it seems to us it never will, and that there must be something wrong somewhere. Is that so?—A. L. H.

Sapulpa Refining Co.'s reported net sales were around $8,500,000 for the last year, which was more than double the sales in the previous year and established a new high record in the history of the company. Its profit on sales was well over $1,000,000, compared with only around $250,000 in the previous year, and the actual income was well over $1,000,000, compared with $250,000 (in round figures) for the previous year. However, the company wrote off about $600,000 for depletion, which brought down its net income to less than $500,000.

The company has pursued a very liberal dividend policy, having paid out $300,000 on a net income of $400,000 last year. We believe the stock has discounted the worst of the situation and we see nothing that would cause alarm from the income statements and balance sheets in our possession from 1917 to 1920. The company should have profited by the low price of crude oil, and it remains to be seen what use it has made of its present opportunity. This cannot be learned until the next quarterly or annual report is at hand.

The company has had a somewhat weak financial structure. At the time the last balance sheet was filed it had a little over $250,000 in cash and notes payable totaling $1,000,000. This is probably one of the reasons why the stock has been selling so low. The book value is said to be $6 a share for the stock, and we are inclined to believe that the stock at present levels discounts poor business and that the outlook is toward larger earnings and a better price.

(Later.—Since the above was written the company has entered into the market with a new bond issue.)

INTERNATIONAL MOTOR TRUCK

The Preferred Stock and The Industry

Will you please tell me something about the situation in the motor truck industry, particularly with reference to dividends on International Motor Truck? What is its present financial position? You once thought well of this stock and I have been wondering whether you have changed your opinion.—K. F. N.

International Motor Truck Corporation for the six months ended June 30, 1921, earned approximately $527,000. Preferred dividend requirements for the six months are about $750,000, so it can be seen that in this period the preferred dividend requirements were not quite covered. The last six months of this year, however, are

expected to show some improvement, so that it is quite likely that the preferred dividend will be earned for the full year of 1921. The company is in strong financial condition. As of December 31, 1921, net working capital totaled over $19,000,000 and there was over $3,000,000 cash on hand.

Motor truck business in 1921 was very poor. Recently an increased demand has made itself felt in this line and indications are that 1922 will be a very much better year.

In view of the fact that the preferred dividend may not have been quite earned in the past year, it is quite possible, of course, that the management may decide to adopt a conservative course and temporarily withhold dividends on the second preferred stock. At present prices, however, we believe that the second preferred stock has already largely discounted a dividend cut, and as we believe the company to have a bright future, our suggestion would be to hold the stock.

A CHAIN STORE PROPOSITION

Is This Being Overdone?

The United Auto Stores have opened a chain of stores selling auto accessories around these parts, and the salesmen are very busy selling its stock. A number of business men in the district have put their money behind it and the stock is having a ready sale, because the townspeople can see for themselves what the company is doing.

Salesmen claim that this has the possibilities of Woolworth and United Cigar Stores, and while the proposition looks very attractive on the face of it, you might have a different angle that would justify my staying out of this investment.

Your reply will decide one way or the other whether I should put a few thousand dollars into this concern.—J. T. R.

We have no circulars or statistical information on the subject of United Auto Stores Co. beyond the facts contained in your letter.

The chain store idea is not new. We assume the United Auto Stores will specialize in automobile goods and accessories along the lines followed by the Times Square Auto Supply Co. a few years ago. This particular company, although it was sponsored by Allen A. Ryan, the well-known financier, failed, and its successor, the Consolidated Distributors, was thrown into bankruptcy.

Generally speaking, we do not advise our subscribers to put their money into new enterprises of this type. Furthermore, in spite of the large number of stores this concern has already established, it is undeniably still in the development stage, if not in the promotion stage. On the whole the proposition as stated does not appeal to us.

ATLANTIC REFINED AND PRAIRIE PIPE

Strong Position of Both Stocks

I am holding Atlantic Refining and Prairie Pipe Line at much higher prices and have been disturbed by the large deficit reported by Atlantic Refining this year. Do you believe that this puts the company in any danger? The stock is considerably lower than the price at which I purchased and I would like to have your views as to whether I should continue to hold it. What would you do about Prairie Pipe Line?

Atlantic Refining's deficit of over $8,000,000 for the year ending June 30, 1921, was certainly a surprise, as this compares with a net profit of $3,782,754 in the corresponding period of 1920. However, the operating income was arrived at after deduction of operating expenses, raw material, etc., regarding which no details are given, and we believe that the figures should not be taken too seriously. The company showed a gross income that was only $3,000,000 less than in 1920; but, while the balance last year was nearly $5,000,000, expenses increased so much in 1921 that they practically wiped out the whole profit.

The market does not seem to have taken this deficit too seriously, and we believe that this factor is thoroughly discounted in the present price.

More than half of the Atlantic Refining's loss was made up on adjustment of inventories, nearly $5,000,000 having been charged out for that reserve. Also the company's interest in Mexico was also responsible for a large loss, the company having paid out to the Atlantic Lobos Oil Company several million dollars in settlement of some differences in policy brought up by minority holders. We think well of the stock despite the deficit.

Prairie Pipe Line stock is selling very low, compared with 205 this year and 282 last year, and a price around 300 in the preceding year. The dividend of $12 a share annually seems likely to be continued and a surplus of $15,000,000 is a strong reserve to carry the company through any reasonable period of depression. The company is still reporting regular shipments of oil through its line which is averaging about 5,000,000 barrels of crude oil monthly. The demand for refined products is improving, and with the possibility that the company will continue to take a greater percentage of oil from Oklahoma and Kansas we expect to see the earnings for 1921 show a big improvement over the earnings for last year.

We regard the stock with great favor for a long pull, and taking into account the very good dividend record of this company and its consistent earning power, through good and bad times alike, we see no reason why you should not purchase it for investment.

AMERICAN SUGAR

Common and Preferred

Some years ago I bought American Sugar common and preferred, believing it to be a high grade investment. I held the stock purely for income. When the dividend on the common stock was passed, I regarded this as a temporary misfortune that time would eliminate.

I have been watching the stock for the past few weeks, a thing which I did not do formerly and the continuous decline in quotations leads me to believe that the stock might have entered the low grade class. Would you advise me to continue to hold my investment and if not into what stock would you suggest that I switch? I would like to receive a little income on this unfortunate investment.—T. W. A.

We regret that you have fared so badly with your investment in American Sugar common and preferred, because you are among many thousands of investors who were justified some years ago in purchasing these stocks for permanent investment, and also justified in assuming that your investment was safe.

However, this company has had a bad time of it for about 18 months now, not only because of the tremendous drop in raw and refined sugar but also because of its having loaded up with sugar at high prices. Many of the large sugar companies are doubtless still carrying the big stocks that are not salable and new financing may be necessary to carry them through the present depression.

If you are prepared to take the risk involved, we would suggest that you at least hold your common and preferred stock for a good rally, which the technical position of these stocks now calls for. So far as the market is concerned, we believe that American Sugar common and preferred stocks are very well adjusted to the unfavorable features of the situation, and all those investors who were unable to hold throughout the decline have already sold out.

If, however, you require some income, we would switch American Sugar Refining common into United Retail Stores and switch the preferred into General Motors 7% preferred, selling at a very low price. While the latter is not gilt-edge, its dividends of 7% seem perfectly secure, and it has also had a very big decline that gives you the advantage of being able to make the exchange at a satisfactory time. You would have an immediate income by making this exchange.

TIDAL OSAGE OIL

A Subsidiary of Tide Water Oil Co.

Would like to know the connection between Tidal Osage Oil, the Tide Water Oil Company, the Guffey Gillespie Oil Company, Atlantic Gulf & West Indies and the Columbia Syndicate. I cannot make out the changes that have taken place in recent months and although I have been a large stockholder of the Guffey, Gillespie Company my business has prevented me from following the developments that have taken place and seem to have come rapidly in the past month. I notice that Tidal Osage sells around 14 against a price of 12 paid by the Tide Water people and I am wondering whether the stock is a good speculation for a long pull.—H. E. G.

Tidal Osage Oil is the company formed by the Tide Water Oil Co. which bought control of the Guffey Gillespie Oil Co. So far as is known the Tidal Water Co. acquired 263,000 shares out of a total of 480,000 shares of the Guffey Co. at a level slightly above $12 a share. If the Tide Water Co. was satisfied to pay this amount, it can be assumed that it knows what it is purchasing. Control of Guffey Gillespie also gives the Tidal Osage a big controlling interest together with the Atlantic Gulf & West Indies Co., in the Colombia Syndicate in Colombia, South America. Guffey Gillespie held about 450,000 out of 2,000,000 shares of this syndicate which owns more than 1,000,000 acres in Colombia. Tidal Osage, therefore, has an equity in about 225,000 shares or more than 10% of the Colombia Co. Tide Water Oil is seeking to purchase enough stock in the Guffey Gillespie Co. to give it working control if not actual control. During its prosperous period, the old Guffey Gillespie Co. was able to earn after taxes and dividends on its preferred stock about $4,500,000, the equivalent of about $10 a share on 420,000 shares of common stock. No late reports are available as to current or recent earnings, but undoubtedly they are much lower in view of the big drop in the price of crude oil. In 1919, the company earned a little over $5 a share. Quite obviously, if crude oil should have further advances, this company ought to be able to net between $5 and $8 a share on its common stock before taxes. The stock is by no means dear around 14, but it might take a little time for the plans of the Tide Water Co. to work out.

(Continued on page 54)

Courtesy National City Co.

Building Your Future Income

The Old-Timer on Investing and Grub-Staking

OUR own Old-Timer waxed philosophic.

"Investing wealth with the idea of making it produce an income of wealth, is the most ancient and honorable profession in the world," he pronounced.

"The first man who shelled an ear of corn, dug his trench for the seed, watched over the spot until the first sprouts appeared, weeded and watered carefully each day, and then reaped his harvest, was an investor. The seeds were his investment; the crop that resulted, multiplying his original planting many hundreds of times, was his income; that portion of his crop which he replanted was the wealth that he reinvested.

"This fellow—and the millions of honest toilers that have followed his methods to their profit since—didn't leave a planting to take care of itself. He didn't trust to God and the weather to treat it right—and him right. He watched his field, attended it each day, protected it from scavengers. He knew, just as investors of today should know, that an investment left to itself, unwatched and uncared for, will be a failure ninety-nine times out of a hundred.

"And when the time came to harvest his crop, he didn't wait for gongs to ring, trumpets to blow and people to shout before getting busy. When the time came to take in his profits—er, that is, to take in his crop, he *took it in!*"

The Old-Timer paused for breath. Seizing the opportunity—and with an inward prayer for the safety of our skin—we asked his views on the radical theory à la mode, viz., that there is no place for investors in the modern community and that the money which goes to them in dividends should go to workers in the form of wages. Much to our surprise, instead of its aggravating him, the idea seemed to amuse him.

"The fellows who argue that way," he said, finally, "just don't stop and think. Or, rather, they do think—but backwards instead of forwards. They see a great corporation paying out money to stockholders who don't work for the corporation; they realize that, in large measure, that corporation couldn't pay dividends except for their labors; they conclude that the dividends belong to them. They forget, or fail to realize, that if it had not been for those very stockholders, and the willingness of those stockholders to grub-stake the company at the outset, there never would have been such a company and the wage-earners wouldn't have had the jobs they've got.

"We wonder," the old man mused, "what would happen if one of those fellows started out prospecting for gold on borrowed money, worked, sweated, starved and thirsted, struck gold, hired five men to work his claim, and then had those five say, 'Here—don't you give that fellow anything for grub-stakin' you; the profits of this mine belong to us!' "

To Build or Not to Build

The Burning Question

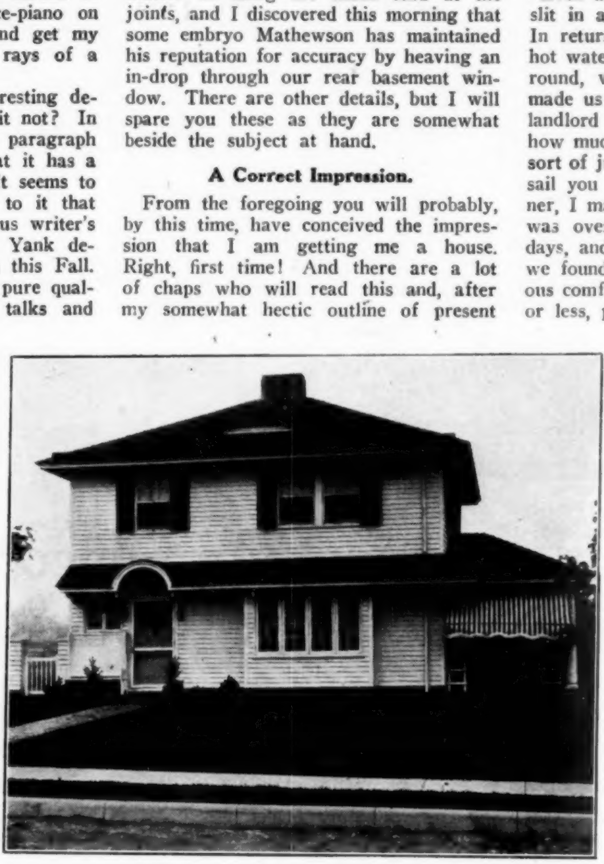
By G. S. GHASTIN

IN order to write this article with any degree of comfort, I am forced to place my Underwood office-piano on an up-ended drygoods box, and get my light from the concentrated rays of a brand-new wax candle.

Rather a romantic and interesting description to start off with, is it not? In fact, as I read that opening paragraph the second time I imagine that it has a sort of Brisbanesque flavor. It seems to have some of the same tang to it that characterized that justly famous writer's opening sketch of the recent Yank debacle up at the Polo Grounds this Fall. The big difference, aside from pure quality, between Brisbane's little talks and this one lies in the fact that the former frankly prefaced his story by saying that he wasn't fully posted on all the fine points of the subject he was then "doing," while I admit no such thing in this instance. I'm going to chat with you a while this afternoon, about a subject that should hit home on the most sensitive part of every man's make-up — his pocketbook — and I'm saying right now that while I may not be exactly saturated with my subject, at least I know something about it, especially the initial stages.

I ought to. The reason for the candle and other scenic effects is that while the electrician has actually installed the fixtures, he has neglected to send some sort of a certificate that is, apparently, necessary to the peace and inward comfort of the city officials; consequently the electric light company won't turn on the juice. Directly before me is a window, and I gaze through the dusk with reflection at our new cement sidewalk. When put down originally, a few days ago, it was as smooth as a billiard table. Since then, however, several of the neighborhood young fry have endeavored to leave their footprints in the sands of time, so to speak, by placing their little red-schoolhouse shoes with precision, and evidently some force, in various, carefully selected portions of the mixture. I am convinced that they have attained their object—unless I can coax the contractor to put a new skin on it.

Through a window on the other side of me I visualize, with tremors, a nondescript pile of plaster, lath, scraps of wall paper, broken concrete blocks and a lot of other miscellaneous junk that, but a day or so ago, adorned our living-room floor. I realize, with a shudder, what an awful fate I barely missed when my wife got somebody else to scrape the lime off the floors. The new range boiler drips melodiously because the plumber evidently became too conscientious in the matter of using too much lead at the joints, and I discovered this morning that some embryo Mathewson has maintained his reputation for accuracy by heaving an in-drop through our rear basement window. There are other details, but I will spare you these as they are somewhat beside the subject at hand.



A Correct Impression.

From the foregoing you will probably, by this time, have conceived the impression that I am getting me a house. Right, first time! And there are a lot of chaps who will read this and, after my somewhat hectic outline of present conditions—which are no different or worse than every homebuilder experiences at first I believe—say, "Another sucker stung!" Well, maybe. Perhaps, too, some of that same crowd were among the folks who invested in U. S. Steamship at around $3 a share, or Cushing Petroleum at $5, or Republic Rubber at $4, or Simms Petroleum at $50, or got in on some of the other big "snaps" that so frequently become opportunities for the real *wise* chaps to show their talent as money-pickers. At least I have something no one can take away from me to show for my money, while all that those other chaps have left are handsome certificates and pleasant memories. Mine is to come, theirs has gone. For investing in a home differs from an investment in stocks to just this extent—when you invest in a home you usually invest at the *bottom*, providing you use a little judgment, but when you invest in stocks you sometimes get in at the *top*. Your investment in a home may appreciate in value, probably will, but your investment in stocks may take a turn for the worst with a snap and suddenness that will surprise you.

When we moved to New York about a year and a half ago, we joined the "Even as you and I" club, and rented a slit in a cliff-dwelling up in the Bronx. In return for housing and warmth, with hot water and janitor service all the year round, we agreed to pay a rental that made us want to take our hat off to the landlord on pay-day. I won't tell you how much it was, because a lot of people sort of judge you by the amount of rental sail you can carry, and, like Ring Lardner, I may be poor, but——. Anyhow, it was over the hundred mark per thirty days, and plenty. At the eleventh month we found that we had received the various comforts stipulated in the bond, more or less, plus half a dozen healthy scraps with the janitor over certain little matters, and in addition to all this we found ourselves possessed of eleven handsomely engraved rent receipts, capped by a curt announcement to the effect that when our twelfth receipt was surrendered we would be presented with a present in the shape of a 10% increase in our rent. Now, we might have sat there passively awaiting our axe-finish. Up where I came from I've seen them kill cows like that, and the cows always waited for the sledge to drop—waited passively. Furthermore we were not collecting rent receipts for pastime, because the United Cigar Stores afford plenty of relaxation along that line, and as we couldn't see where the profit might be in it for us, although we could see where the landlord got his, we decided to do something. We figured that in two years we would have donated for housing and warmth a sum approximating $3,000, without getting value received, to someone else, and we concluded that the same amount would look better if stamped or labeled "G. S. G." So we hustled around, bought a couple of lots out on Long Island, where the locality hadn't "arrived" to the point of impossibility as a purchase, and found a contractor with nerve and courage who would build the kind of house we thought we could use, and one that is within our means. That's that, and as far as I shall go on the personal trend today.

Does It Pay?

Whether it pays to invest in your own home or continue to pay rent is a topic that is more frequently utilized as a cud of conversation than almost anything else I know of. Get two rent-payers together and they'll almost invariably switch to the subject of the big hold-up at the end of the month, but frequently that is as far as it goes. Hop a suburban train and mix with the commuters, and you'll

find, somewhere in the car, a coupla chaps arguing over the same thing. One man will contend that it doesn't pay to own your own place—that's it cheaper to pay rent, while the opposing forces will burst forth into snorts of disdain at the mere thought of an apartment. Personally I do not believe it becomes a matter of cost at all, but is, in reality, a difference in temperament. It is a subject that rests on the likes and dislikes of the individual. Some people abhor the very thought of combing out a lawn or clipping its growth, while others revel in the, to them, pleasures of a yard and garden to fuss with. Some folks insist upon living where they can roll out of bed into the subway in the morning, while others think nothing of a twenty mile jaunt to and from the office. Nevertheless, at the bottom of every type of human nature you will usually find the desire for a home, for luxurious surroundings, for a piece of property that can be labeled "MINE." If that were not so, what would there be to live and work for? You don't run down to the office in the morning entirely for the fun of it, do you? I know of but one shining example in history of a man who didn't appreciate a good home. This man, born in the lap of luxury, according to tradition, turned his back on "home" and became a wanderer on the face of the earth. But, years later, when he was an old man, broken in health and dying in poverty, this man—John Howard Payne—voiced the longing of his very soul when he penned those never-dying words, "Home, Sweet Home."

Leaving Aside Sentiment

Leaving aside the sentimental and other features of a similar nature regarding the possession of home, let's look at the practical side and take it from the investment standpoint. From the time when Prometheus—who also stole fire from heaven according to mythology and gave it to man—built the first house with four walls, the possession of a home has always been, more or less, the badge of substantial worth. From the beginning of time, the home has stood as the first investment, and today few men and women consider themselves as being on the road to independence until they have acquired their start by owning their own home. After that is accomplished they branch out, and frequently utilizing their home as the nucleus with which to begin investing elsewhere, either by adding to their real estate holdings or by seeking to make their capital grow through other means. In other words, they use it as their "stake," and frequently the results have been somewhat surprising.

Right along this line you have probably had the argument presented to you by your broker that when you own stocks outright it is advisable to use them as collateral and add to your holdings. This has certain advantages, especially in a rising market where the risk of losing the original shares is small, and frequently an investor is enabled to grasp an opportunity in this way that he would have been forced to pass up altogether had he been forced to buy for cash. The home, however, possesses the same advantages, only on a larger scale. Nowadays few level headed business men own their own homes clear. In the first place, it is hard to sell a place for cash in full, and a piece of property with a "shin-plaster" on it can be turned over much quicker. But aside from this, a home, if it be well built and located in a good section of the community, has a real collateral value in enabling the owner to seize business chances, and in that manner lead him one step farther toward the ultimate goal of financial independence.

A Man Who Lets Chances Slide

This is a feature that many home-owners overlook. I was talking to a man the other day who was proudly boasting of the fact that he owned his home clear—not a nickel encumbrance on it. Under certain circumstances his opinion would have been admirable, but he was not an old man—he was a man around 40, and to the best of my knowledge all he has in the world is tied up in that home, for he is still working on a salary. Now I judge that property to be worth, at present market valuation, in the neighborhood of $10,000. Any company dealing in mortgages would loan him at least $4,000 on it, and he might even be able to get a long term loan from one of the big insurance companies for a period of fifteen years by reducing his principal about 3% on every interest date. I asked him why he didn't do it, and he brought up the argument that his interest charges would be costing him too much. Well, maybe —but would they? He is overlooking the fact, in the first place, that he has $10,000 tied up in that property himself, and that, inasmuch as he could invest his money in something that would pay him at least 6%, his house is actually costing him that amount yearly. Six per cent on $10,000 is $600 a year, or $50 a month, consequently, he is paying that much in rent even though it doesn't come out of his pocket every thirty days. There is a point most home-owners overlook when they compute their costs.

But supposing this man took out a $4,000 mortgage and invested the money in a good, sound, dividend-paying stock, or some of the good bonds, now yielding between 8% and 10% on the money invested. In that way he would be getting his 6% carrying charges paid, and would have an additional profit of from 2% to 4% to apply on his taxes and up-keep. Or he might utilize the proceeds to establish a business of his own. There are hundreds of ways in which a live man can find means to invest $4,000 at a big profit, and he certainly is taking away that money's earning value by keeping it tied up in his house.

Another Appealing Factor

Another factor that appeals to the average homebuilder is the safety of his principal. If he chooses his location wisely—say out in the suburbs, or in some section where there is no danger of the neighborhood turning "sour"—his investment should not only remain at its initial figure, but may even increase considerably over a term of years. I have in mind the case of a woman who lives up in the Bronx. Six years ago she owned a very comfortable home not far from the Grand Concourse—a home for which her husband had paid around $4,000, and which he had left her when he died. About that time real estate began to boom, as you know, and she was offered $7,000 for the place. A new apartment building was just being finished across the street, and as the rent was only about $30 a month then, she accepted the offer and moved into the five rooms and bath. Today she is paying close to $100 rent for that same apartment—nearly all her profits on the sale of her home are gone. And, just to add insult to injury, she had the pleasure recently of seeing her old home sold the second time for $14,000—a clean profit of 100% within five years. Five years from now it may sell at double the present figure, as the trend of growth is in that direction. Had she held on, she could have eventually secured a very tidy nest-egg from her husband's foresight.

The Spirit of the Man

A good, well-kept home stands for the spirit of the man who owns it. The man who holds on in spite of poor transportation and the lack of certain modern conveniences for a time, usually has but to wait until the trend of growth reaches him to realize on his investment many times over. It is told of Hannibal that his will, or stubbornness, was only rivaled by that of his enemies, the Roman people. For after he had defeated every army they had sent against him, after he had arrived within three miles of the city and was momentarily expecting the arrival of a flag of truce to negotiate a surrender, he learned from a captive that the very Roman villa in which he had made his headquarters had been sold that day in the Forum for a higher price than it would have brought in times of peace. Taking our own times, for a further example, many of you will recall the terrific decline in stock prices the day it was announced that submarines had appeared off Nantucket—German submarines—and that they were sinking shipping. By rights every home-owner in Long Island or along the Atlantic seaboard should have sold forthwith and taken to the tall timber. I recall no change in real estate prices, however, or increase in the "For Sale" columns. Furthermore, we learn that over in Germany every man with capital today is investing in real estate, and discarding the bales of marks being turned out by German Government presses. Why? Because the ground is there, and nothing short of a convulsion of nature can take it away—it is sound, and constitutes a real investment with possibilities for profit when times become normal. Can you ask for better evidence than that, as to the stability and safety of your investment?

And There You Are !

So there you are with I hope the germ of a constructive thought. To really cover the subject of real estate investment—of the home as an investment—would require volumes. One could go back from time immemorial and cover every year of history to the present time with illustrations to show why the home should be the first investment. But that would seem to be unnecessary. All you have to do is to take a trolley ride some Sunday out into the suburbs of Manhattan and see for

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How a Mechanic Plans to Achieve Financial Independence

The Story of an Idea Conceived in Early Youth and Carefully Nurtured Since

By **JOHN H. MOFFETT**

IT is highly improbable that a financial treatise ever has been sent by a mechanic to THE MAGAZINE OF WALL STREET. My conclusions are based on eighteen years' association with working men in many lines of industrial activity. It has been my observation that the vast majority of wage-earners have no definite plan for saving, much less successful investing, even when almost every factor was in their favor. To them the rules and procedure of finance are void, and a large number go through life following the precepts of the expression, "Eat, drink and be merry for tomorrow you may die."

Often have I been jeered and derided when I exposed to fellow workmen my plan for building a competence for old age. It did not seem to make much difference even if their own welfare and benefit was at the bottom of my desire to aid them. Many times the question of what pleasure would my savings bring if I died young or before they could be spent, has been put to me. My reply always was that I counted on living to a ripe old age, and that, if I did, I wanted something to keep myself out of the alms-house, or off the charity of friends; while on the other hand, if I died young there was the satisfaction of having planned well. It is hard to convince many working men that saving is nothing more than delayed spending, so intent are they to spend their wages as fast as received.

Cincinnati, Ohio.
Oct 27, 1920

Prize Contest, Magazine of Wall Street,
42 Broadway,
New York City.

My dear Editor:

Enclosed herein is a true story of the financial education and aspirations of a horny-handed son of toil who has had the inspiration and inclination after a day of grime and sweat to at least make an effort to give that story to the world.

Very truly yours,
John H. Moffett.

A Long, Hard Pull

Even without all his lack of vision and understanding, building an income is a long, hard, uphill pull for a workman subject to the vicissitudes of trade. This is especially true of those engaged in the iron or steel industry, where the effects of business reversal come quickly and sharply. The maxim of the great "Iron Master" that steel was either a prince or a pauper holds for the workman as well as the capitalist. My experience through the depressions of the past two decades are still vivid enough to bring respect for the truth of that expression.

Formerly I was a rank enemy of capital. Prejudice and misunderstanding had blinded me to the extent that I embraced socialism as my only salvation. From some of the iniquities of the system of capital the whole structure appeared to be organized to wring the sweat from the brows of toilers. It was a Moloch grinding under its tyranical heel the very beings which sustained its existence. Today I am able to see industry and finance from two angles. **Labor and capital cannot exist, one without the other. Although I still am a member of organized labor, my views have been tempered until I can see that no one would risk money in an undertaking if there was no reward or hope of it. There must be profit if capital is to exist. I myself would not buy the stocks and bonds of corporations if they did not promise a return. It would be better to spend the money for fleeting pleasures than to place it where it returned nothing.**

How Anti-Capitalism Grows

There is no doubt that my antagonism against capital was accentuated by my first investment, made when but a boy. The rosy prospects of a mining venture in the Cripple Creek District swallowed $150 of my savings gathered from hard-earned wages made in an iron foundry. Although the promoter, honest and sincere, but inexperienced, lost as heavily as any one of the investors when the vein of gold pinched out, my loss occasioned so much bitter disappointment that I can hardly be blamed for the stand I took at that unsophisticated age.

But time mellowed my radical opposition to the honest efforts of capital; and I now look on my experience in the gold mine venture as the best investment I ever made. The lesson drove me from blind speculation to ultra-conservative investment. So "ultra" did I become that my first thousand was entrusted only to the Postal Savings Bank paying 2%. I was too wary even to trust a diversity of savings banks with my funds where they would have earned at least 50% more.

The Decision to Invest

When the First Liberty Loan issue was floated I had accumulated about $1,500. After revolving the proposition in my mind through a long, brain-racking process, I reach a decision to invest $500. Compared to 2% on postal savings the 3½% on the bonds appeared like a bonanza. As the war and Liberty Loan issues progressed, I became more bold and confident. The fear of having my money tied up in Government bonds was overcome; consequently investments were increased until all that was possible was being carried. From a $500 investment in the First Loan confidence, understanding and patriotic motives had carried the allotments to $1,600 in the Fifth.

In the meantime I had been watching quotations on my Liberties in the financial papers, and unconsciously at first, turned to other forms of investment. By the time my payments on the Victory loan had been completed I had learned that investments could be made safely at higher rates of income. Enthusiasm became rampant, and all the information that could be found on investment in current magazines, financial papers and literature obtained from investment houses I devoured with avidity.

Finally the realization dawned upon me that income, if properly invested would accumulate like a snowball rolling down hill. The more it rolled the greater would become its ability to grow. All this was a revelation. I began to see capital from a different angle from which most workingmen view it. A new interest in life and a feeling of independence enveloped me. On the strength of my new experience, I resolved to carry out a plan with an income of $360 a year, from my backlog of Liberties and twenty-four shares of preferred stocks in four seasoned industrials.

What Is Expected of Fortune

Since I am without talent or exceptional ability my plan calls for a moderate exaction from "Fortuna." Ever mindful of the ebb and flow of prosperity, I intend

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Readers' Round Table

"THE RAILROADS"

Editor, THE MAGAZINE OF WALL STREET:

Sir:—I wish to comment on James J. Kirwan's article on "The Railroads" appearing in the August 6 number of THE MAGAZINE. Might state that my delay in doing so is due to the fact that I read the article while still in Alaska, where outside literature is usually a month behind time. His method in working up the article is something rather out of the ordinary, and its scope and actual value are considerably above the average, provided, of course, his statements are reasonably accurate. An article of this sort appearing quarterly would be a decided asset to THE MAGAZINE.

I also noted your remark that the stocklist appearing recently is more or less of an experiment. Personally, I believe it should be taken out of the experiment class and made permanent. Speaking for myself alone, and possibly for a great many other subscribers who may hold the same opinion, the appearance of these quotations has added considerably to the value of THE MAGAZINE for me. I dare say I am not the only subscriber who desires to keep on file records of certain groups of stocks marketwise, and their appearance in THE MAGAZINE eliminates the necessity of keeping written records, or newspaper clippings.

It has always seemed to me that while your Trend Department has been very satisfactory, it still is not as complete as it might be. I fear that I am making myself appear insatiable, but I am confident that you recognize better than any one else the value of an exhaustive report of business conditions appearing with every issue. Frankly, it is my opinion that your present fund of information along these lines is hardly more than 75% complete. Before going further, I should state what I have in mind. You are familiar with the monthly letter issued by the Alexander Hamilton Institute. It possesses a good many statistics not appearing in THE MAGAZINE which might still be of considerable value to many of the readers. The banking information appearing in the A. H. sheet is very good, as is the list of commodity prices in the basic industries. Similar information appearing in THE MAGAZINE has always varied from issue to issue, and has been scattered among the articles in more or less "filler" style. The same information consolidated into one-page or double-page form, and in uniform order from month to month would, I feel sure, increase the value of THE MAGAZINE to your subscribers not a little. It can be explained how the information thus presented can be used by the investor in forming his own opinions of the market, and in this way the real value of the apparently superfluous statistics can be impressed on the casual reader.

Hoping that you will not consider that I have been too free with your invitations for suggestions, I am,—T. P. C.

We appreciate your criticism. Mr. Kirwan's article, to which you refer, was generally well-received, and his unique method of treatment will undoubtedly be followed again in a future issue.

Your views as to the Trend Department—by which we suppose you mean the Trade Tendencies—agree closely with our own. This department has always been one of the most popular in THE MAGAZINE and we therefore realize that we cannot expend too much effort in attempting to keep it live, interesting and accurate. Recent issues have contained evidence that we are not neglecting Trade Tendencies; as, note the special analysis of the Wheat situation appearing in our issue of October 1st (a new feature for Trade Tendencies); also the special analysis of Silver in the October 15th; also the table giving the price ranges of commodities appearing for the first time in our issue of October 15th.

As for the table "New York Stock Exchange Active Stocks' Price Range" we are glad to advise you that this is now a permanent feature of THE MAGAZINE.—EDITOR.

WANTS HARMONY

Editor, THE MAGAZINE OF WALL STREET:

Sir:—I note from your letter of the 21st that you will endeavor to have an article on Western Pacific in the near future. Thanks.

I note that you have more or less dropped the Railroads in favor of Public Utilities. Perhaps this is as it should be, but I would dearly love to see another article such as that which appeared about a year and a half ago entitled "How cheap are the low priced Rails."

I am obtaining experience, but so far it has been at my expense. I never blame the other fellow for my mistakes, but I would sure like to see the country settle down to business, including Congress, Railroad Brotherhoods, etc., and forge ahead.—A. J. W.

"LUCK"

Editor, THE MAGAZINE OF WALL STREET:

Sir:—Your article on "Luck" in the recent number calls to mind an interesting experience of my own.

During the war, and I think it was at the time the submarines appeared off Nantucket, I was long 200 shares of a certain stock (A. B. S.) at about 89. It closed the night before at 89. Feeling sure of what would happen the next morning I got around early and placed an order with my broker to sell 100 shares at 85 or better; also at 84, 83, 82 and 81 or better. I also gave orders to buy 100 each at 84, 83, 82, 81 and 80. Well, it was a pretty wild morning, and reports were slow in coming, but after a while I learned that I had sold 100 at 85, and 400 at 84, and had bought 100 at 84 and 100 at 83. This left me 300 short, and about this time came the news of a 2% dividend and a 12% extra!!! Was that LUCK? At any rate it was a new complication, one which I had never come in personal contact with before. I paid about $4,000 for the lesson, and as I am still a trader I will not forget it, especially as if I had followed it up in two different ways it would have made me a fine profit, because my loss was practically the dividend on 300 shares short.

As it did not break me and I am still a trader, I am very sure of what I would do next time. Luck? LUCK? *Luck?*—H. R. H.

Popular Potentialities

(Further excerpts follow of a letter from Mr. Frank Collins, of which the major portion was published in our last issue.—Editor.)

One immediate constructive act of legislation that should be accomplished immediately for the common weal is some form of bonus bill for former service men. It is quite apparent that any cash consideration paid out in the form of a bonus would be detrimental not only to the country but to the men themselves. However there is a possibility to pay to men who fought under the flag as a bonus a certain Government non-negotiable security returning a fair rate of interest and maturing in possibly twenty-five years, or the Government is also in position to give to men who wish that form of a bonus, certain Government lands which they can cultivate, free from taxation and restriction, for a certain lengthy period of time. The present situation of service men now unemployed is desperate. Naturally, they are in the same position as other unemployed men who were not in the army or navy, but the fact of a service man's unemployment without funds and in straightened circumstances, creates thoughts in his mind which should not be there. This is a matter that not only needs but demands immediate attention. Surely the Government can create certain work in different parts of the country where these men can be employed at a living wage until industrial conditions offer better opportunities for them, and also there are thousands of minor politically appointed positions now held by men who were not in service, who could undoubtedly afford to take a six or twelve months' vacation or another position and fill their place with service men qualified to do their work. There are also thousands of positions now held by women—some married women—who are not forced by financial circumstances to be employed. Here is a case where employers of labor can discontinue such positions as held by women who are not of necessity being employed, and take on service men qualified for that work.

One important and prominent position in this country is that of Vice-President of the United States, and any

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Petroleum

Further Improvement in Oil Industry

Crude Price Advances Everywhere—Our "Waning" Oil Supply—The Situation

By H. L. WOOD

THERE has been a noticeable improvement in the petroleum industry following advances in quotations for crude and refined oils everywhere outside of California—even in Mexico, slightly handicapped by the intrusion of salt water. This improvement is not apparent in larger volume of business so much as in a better feeling caused by increased revenues to individual operators, which means, in final analysis, the industry is in better shape to begin enlarged operations just as quick as the world demands more oil in its varied activities. Probably the most desirable reflection of the improvement is the quite apparent stimulus activity and better prices for petroleum products and securities has given to the securities of many other industries. Some stimulus was sorely needed, it is frankly conceded, and the lubricant is oil. Price advances did not necessarily—or even inferentially in some instances—bring about conclusion of a number of exceptionally large and important mergers and expansions of corporations and properties; but the successful conclusion of negotiations has had a decidedly stimulating effect upon security markets and the situation generally.

Reference is had to the just-announced Royal Dutch-Shell-Union Oil Company of Delaware merger involving approximately $200,000,000, and the expansion merger of the Pure Oil Company and the Humphreys interests at Mexia, Texas, and the formation of an organization approximating close to $100,000,000 capitalization. There is, of course, differing opinions as to the advisability of increasing alien holdings in United States Oil production, the national ethics of which will not be here discussed; but it is inclined to have a sort of revivifying impulse in petroleum, and it may lead to other industrial moves. The trend of movement, not alone in oil, seems to be toward reduction of overhead by consolidations and working agreements, the obvious effects of which are lessening costs and resultant possible benefits to the consuming public. There is a cumulative effort to clear away the deadwood of war inflation and bring about the more efficient accumulation of legitimate profits, which will eventually bring the great purchasing and consuming forces into more normal activity.

World's Oil Supply

To offset the exaggerated efforts of alleged technologists and space writers, now so prevalent in the daily and class press, to scare the world to death with thoughts that the United States will be without crude oil in ten years, it seems to be particularly pertinent at this time to cite a few facts about our crude oil supply. Since January of this year the production of crude oil in the United States has declined approximately 150,000 barrels a day, total daily production still being 1,100,000 barrels—the decline being not at all dangerous because the failure of the world to consume as much as formerly is the compelling reason for less production, and production can be increased whenever urgently needed. At this writing approximately 100,000 barrels a day is going into storage tanks, further emphasizing the absurdity of the famine advocates. Furthermore, exports during the first nine months of 1921 are less than during the same period of 1920—negligibly so, it is true, but again discrediting the alarmists. The United States has remarkably extensive undeveloped petroleum reserves, in addition to its sustained daily output, so that the generation to succeed us of the present will not be at all embarrassed by lack of petroleum for propulsion fuel. It seems to me that the most idiotic talk is that which seeks to make us believe that in ten or fifteen years the enormous petroleum industry will have ceased. It is arrant nonsense, absolutely, positively and irrefutably demonstrated, so why worry.

Mexico—that remote, romantic and weird playground for "experts"—isn't nearly so bad off as Wall Street speculators and scientific dilletantes delight in recounting. Admitting that salt water has surely eliminated several pools of very limited area and cruelly evaporated somewhere around 1,400,000 barrels a day of "potential" production, a daily production of 500,000 barrels remains; and that is as much crude oil from Mexico as consumption is absorbing. By the time that world demands for fuel oil from Mexico exceed present production—that can be maintained for some time—exploration will have discovered other pools. This much is sure, so why worry over the mental antics of space-writers and self-appointed "experts" or the prestidigitators who perform in Wall Street?

What is reasonable excuse for at least a little worry, or at least speculation, are the sudden jumps of from one to three cents a gallon in gasoline prices while trade moves consistently and quietly. There is more gasoline in storage now than there was a year ago and summer excursions are over. It would be somewhat consoling if the technologists who are so persistently putting crude oil out of the way would divert themselves to gasoline. Unless, perchance, their crude oil famine "dope" has some psychological connection with advancing gasoline prices; in which event Einstein's theory of relativity is being demonstrated. Gasoline was being sold in New York as this was being written at 29 cents a gallon, and there has been in the week a horizontal rise of one to two cents in all Atlantic seaboard territory. If gasoline is to be a common marketable commodity only ten years longer let's jazz it away like true sports.

The Foreign Situation

Chief among foreign countries, Mexico is furnishing as much oil as consumption demands, the large September shipments adding about two million barrels to the storage supply held in the United States, daily average shipments from Mexico in September having been 586,000 barrels, daily production being about 385,000 barrels, of which the Tuxpam district furnished approximately 285,000 barrels and the Panuco district 100,000 barrels. Salt water stories continue to slop over into Wall Street and speculators romp on Mexican Petroleum at will. In South America the International Petroleum Co., Standard of New Jersey and the General Asphalt-Dutch Shell interests continue to develop new wells and to refine enough to supply local demands in Peru, Ecuador, Chile, Venezuela and Colombia. No other companies are active there. The year's work in Canada developed no new fields or production, but Imperial Oil, Ltd., is spending a great deal of money to find oil in the Dominion, so far without success. The Fort Norman well, so spectacularly described by the high school scientists and essayists, is no better than a 20-barrel pumper, and the land of the midnight sun still has to get its kerosene by dog sled 1,000 miles and pay $2 a gallon for it. Great Britain's alleged combine and monopoly of petroleum of the world isn't strengthened in Canada.

A rather unusual offer wandered into the Street the other day, being an offer to deliver 150,000 barrels monthly of crude oil from the Island of Trinidad, which is British controlled. Oil is produced and refined in commercial quantity in Trinidad, besides the asphalt from the noted lake controlled by the General Asphalt Company. Half a dozen English companies are producing oil there, nearly all of which goes to England, the government enforcing very stringent regulations against aliens.

Persia is Great Britain's petroleum storehouse and will furnish an almost unlimited supply for that government, but it's a long way to haul it. India maintains its oil production, but the volume is comparatively small. Roumania and Galicia have about rehabilitated the fields destroyed to prevent their utilization by the Germans, but are more local than extensive. Russia, which was second to the United States

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Kansas & Gulf Co.

An Oil Company Managed by Its Stockholders

How Kansas Gulf Aroused and Sustained the Active Interest of Its Security Holders

WHEN the Kansas & Gulf Co. holds an annual meeting, it has to hire an armory to accommodate the crowd.

And the crowd doesn't come out of idle curiosity. It comes because it's interested. How this interest was originally aroused, and what is perhaps even more striking, how it has been sustained, go to make an interesting and unusual story.

The Beginning

The Kansas & Gulf Co. was originally a sort of informal get-together out West of a group of practical oil men and their interested friends. About three-hundred persons joined forces in the original undertaking.

This group of workers and investors decided to "put over" Kansas & Gulf on their own account. Instead of forcing the "company" to pay huge selling expenses, in connection with its financing, they determined to handle the financing themselves. They got their friends to subscribe to shares; and they got their friends to get their friends to come in.

As a result, some 8-million dollars' worth of stock was sold direct to stockholders; the list of shareholders rose from the original (and informal) 300 persons to today's impressive total of nine thousand six hundred; and every cent of every dollar paid over for stock went into the company's treasury.

That, in brief, is how the interest of its shareholders was originally aroused by the Kansas & Gulf Co. How this interest has been sustained since then is equally noteworthy.

Interest is sustained partly by providing shareholders with unusual sources (and amounts) of information as regards the company's progress and activities; it is sustained partly by such original ideas as moving pictures of camp operations, which it is made possible for the stockholders to see. But the main factor in keeping a grip on the mentalities of its security-holders has been a form of stockholder "management" which, so far as we know, is unique with the Kansas & Gulf.

The original stockholders in the company were centered, largely, in certain sections of Illinois, in Buffalo and Pittsburgh and Mobile, Alabama. Thus, they were divided into natural groups. It was decided early in the company's career to make further sub-divisions of these groups; to name a representative at the head of each one of them; and to collect these representatives into an advisory board, acting as a sort of intermediary between the company and its security holders.

The subdivisions were made. There are now 50 groups represented on the board.

These groups are not vested with authority to control the company's affairs. They act purely in an advisory capacity. And yet, how vital an influence they exert will be plain when it is pointed out that no single important step has been taken by the Kansas & Gulf without its first advising these groups and securing, through them, the approval of the stockholders.

How the Plan Works Out

If a list of satisfied stockholders is any evidence, then the Kansas & Gulf plan must be A-number one. There are more than a million and a half of the company's shares in the hands of the public; and yet, in the past fifteen months, only 42,000 of those shares have figured in the transfer books. Certainly this is a splendid indorsement.

Further proof of stockholder goodwill in the case of Kansas & Gulf is given by the attendance records at the company's annual meetings. Last year, over 2,500 persons attended the session. We are informed the company had to hire an armory to accommodate them.

HARRY L. MOURER
President Kansas & Gulf Co.

More Unique Features

There are other unique features in the Kansas & Gulf organization. Management, for example:

H. L. Mourer, president of the company, instead of presiding over desks and tables in the usual fashion, is a practical oil man who spends about all his time clad in overalls and working in the oilfields. You won't find Mr. Mourer very often in Chicago.

The vice-president, Mr. H. J. Weller, is also a practical oil operator, and distinguishes his office by superintending operations from Tulsa, Oklahoma.

The only officials of the company who stay in the Chicago headquarters are the treasurer, H. S. Hoover and the secretary, W. H. Latimer.

What is perhaps even more interesting to note is the fact that the organizers and original officers of Kansas & Gulf are still in active management.

President Mourer, by the way, began his practical oil work in Pennsylvania. He now devotes his time to the properties in Oklahoma, Texas, Kansas and Louisiana.

The Company's Finances

Kansas & Gulf's finances seem to be in pretty good shape. With one exception, and current items, the Kansas & Gulf Company has no indebtedness, bonded or otherwise. The exception is the deferred payments for the Burkburnett properties, which cost $4,750,000, with a cash payment of $500,000 on November 15, 1920. Since that date a total of $1,970,000 has been paid, leaving due payments of $40,000 per month from June 30, 1921, to March 30, 1922; $100,000 per month from April 30, 1922, to May 31, 1923, and $60,000 per month from June 30, 1923, to June 30, 1924. To meet these payments and current operating expenses, the income is from 352 wells in Oklahoma, Texas, Kansas, Louisiana and Arkansas, daily production being approximately 5,500 barrels, with a current average of 3,500 barrels. Two refineries and their marketing facilities form additional income, the main refinery in Oklahoma running to capacity of 4,000 barrels daily.

On September 6, 1921, Kansas & Gulf directors authorized an issue of $3,750,000 of serial gold notes to be dated as of September 1, 1921, bearing 8% interest. Of this issue $750,000 will mature Oct. 1, 1924; $1,000,000 Oct. 1, 1925; $1,000,000 Oct. 1, 1926, and $1,000,000 Oct. 1, 1927. These notes have been offered to the stockholders, any part not thus sold to be offered to the public. The proceeds of this note issue will be applied as additional working capital, the purchase of crude oil for storage and the purchase of new properties, and the development of properties now owned or to be acquired.

Latest Acquisition

In June of this year the Kansas & Gulf Company—an exclusive producing organization—acquired the Southern Oil Corporation, a refining and marketing organization, by the purchase via 300,000 shares of Kansas & Gulf stock, or 30,000 shares of a par value of $100, all outstanding. The Southern Oil Corporation operates a 5,000-barrel refinery at Yale, Okla., with pipe lines connecting a number of fields and about a hundred distributing stations in Oklahoma and Kansas. Another refinery, with pipe lines, is operated at Walter, Southern Oklahoma, of 2,000 barrels daily capacity. At McComb, 14 miles from Chicago, the company operates a refinery and compounding plant of 5,000 barrels a day capacity.

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How Doheny Got There

An Intimate Study of One of the Most Brilliant Figures in American Oil Industry

By CHARLES FREDERICK CARTER

IF there is any truth in a familiar aphorism, J. P. Morgan, the elder, considered character the best security for a loan. Morgan did so well in this country that his example may well be emulated by the common, or garden, variety of investor. For, in the last analysis the investor *lends* his money to the corporation whose securities he takes in exchange therefor.

For example, if the potential investor were to look up the character of the outfit which offers an oil stock guaranteed to pay 100% dividends on the odd hours and to increase in price 280% on the even hours he probably would keep his money in his pocket. On the other hand, if he were to investigate carefully the character of the man behind Mex. Pete. and Pan American Petroleum & Transport Co., he would, if he followed Morgan's precept, stake his last dollar on those corporations.

Before undertaking to tell something about Doheny, let me interject as an aside the pronounced conviction that if Mex. Pete. was worth the prevailing quotation around 179, and Pan American P. & T. around 104 a year ago they must be mighty good buys around 104 to 110 and 47 to 51 respectively today; for nothing whatever has happened in the last twelvemonth to impair their worth, while Doheny is still in the saddle with every appearance of intending to stay there. If you would know what that means just take down a standard reference work and look up the dividend records of these corporations, then ponder well the following little sidelights on the character of Edward Laurence Doheny, the president of both.

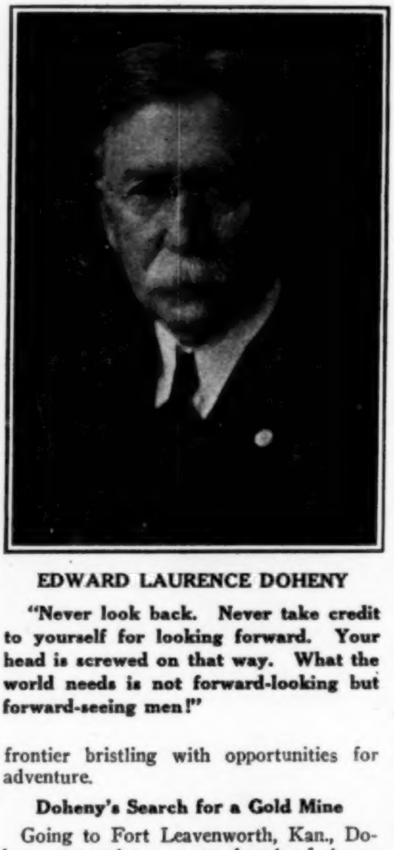
The Doheny Philosophy

The Doheny philosophy may be expressed in substantially these words from the gentleman's own lips:

"Never look back. Neither take credit to yourself for looking forward. Your head is screwed on that way, so you can't help being forward looking. What the world needs is not forward looking, but forward *seeing* men."

By virtue of a capacity for forward seeing Doheny, thirty years ago a prospector in the Southwest with no earthly possessions save a dauntless courage, is now president of the Pan American Petroleum & Transport Co., the Mexican Petroleum Co., Ltd., the Huasteca Petroleum Co., and the Petroleum Transportation Co., an oleaginous quadriga constituting the dominating feature of a complicated combination of subsidiaries, after the manner of modern corporations, which holds a thousand square miles of territory in Mexico producing from 17,000,000 to 19,000,000 barrels of petroleum a year, together with several hundred miles of pipe lines, vast storage systems, a railroad 45 miles long, a thousand tank cars, a fleet of 46 tank steamers with an aggregate capacity of 3,000,000 barrels, and refineries with a present annual capacity of 32,000,000 barrels. Other properties in California and Louisiana bring the aggregate capitalization of the Doheny properties up to $171,000,000.

Like Rockefeller, Doheny built his fortune on an initial capital of nothing at all. But there the parallel ends. Doheny's career is as unlike that of Rockefeller as could well be imagined. Instead of sticking around the East, where the money is supposed to grow, Doheny struck out into the West soon after graduating in 1872, at the age of 16, from the high school in his native town of Fond du Lac, Wis. In those days there was still a real frontier bristling with opportunities for adventure.



EDWARD LAURENCE DOHENY

"Never look back. Never take credit to yourself for looking forward. Your head is screwed on that way. What the world needs is not forward-looking but forward-seeing men!"

Doheny's Search for a Gold Mine

Going to Fort Leavenworth, Kan., Doheny engaged to escort a bunch of shavetail mules—the phrase is his own—for Lieut. Wheeler, of the U. S. Geological Survey, to be used for pack animals in the survey of the boundary line between New Mexico and Arizona. The party arrived at Fort Marcy May 9, 1873. Soon after Doheny concluded that his Government job did not seem to promise much prospect of early wealth; so he resigned from the mule train and set out to look for a nice, rich gold mine. This little prospecting trip was destined to last twenty years. For a considerable part of the time he lived on the game he shot, his entire cost of living averaging less than fifty dollars a year for cartridges, salt and other luxuries.

Of course there were little diversions from time to time to keep up the interest. One of these occurred in 1875, when Doheny was 19 years old. He had joined a party of prospectors on a trip to the Grand Canyon. This was seven years after Major Powell had made his historic trip down the Colorado River. One day while a member of the party was being lowered over a cliff to look for indications of mineral the rope broke and the man fell to his death. There was no way to recover the body because all the ropes in the party had been combined to make up the one that broke. So the survivers went their several ways and forgot the tragedy; that is, all but Doheny. He could do nothing at the time; but he could, and did, return a year later with a companion, had himself lowered over the cliff and gave the skeleton a decent burial.

How Dan Grady's Acquaintance Was Made

Another little diversion occurred on one of his rare visits to civilization. A whiskey-crazed man, taking exception to Doheny's appearance, leveled a shotgun at him, intending to blow the objectionable prospector to kingdom come. He undoubtedly would have done so, since Doheny did not know he had incurred any one's displeasure, had not Dan Grady, who chanced to be sitting beside the line of fire, projected himself head first, in the style of argument effected by negro roustabouts, against the crazy's one stomach, who thereupon lost interest in the proceedings.

Naturally this incident inspired in Doheny a desire for Mr. Grady's acquaintance. The acquaintance still continues, though at long range; for while Doheny has made so much money since that he can't for the life of him tell what to do with it, Grady is still going to make his fortune. Being as independent as only a hog on ice, or a prospector, can be, Grady would scorn to accept any favor Doheny would be only too pleased to bestow upon the man who saved his life. But to continue prospecting grubstaked by Doheny is a different matter, being a business arrangement sanctioned by immemorial custom. So Grady probably will continue prospecting, grubstaked by Doheny, until he leaves his bones to whiten in some lonely gulch.

On another occasion Prospector Doheny fell down a shaft and broke both ankles. He was fished out and laid away until the fractures healed when he resumed his prospecting, as strong on his feet and in his determination to continue to land on them, as ever.

More Agreeable Incidents

Also, there were more agreeable incidents. In company with Harry Elliott, Bob Forbes, Tim Corcoran, Sam Miller, Jim Delaney and Tom Brady, Doheny discovered silver in the Kingston district in New Mexico. Their first strike was on the Saw Pit Gulch branch of the Middle Per-

cha—not that anybody will know or care where Saw Pit Gulch is, but these exact particulars make the narrative more convincing. As silver had not then been deflated by the crime of '93 many a fortune was made in the Kingston district, though Doheny was not among the prize winners. Oddly enough, the only really good claim he staked out he presented to his friend, C. A. Canfield, who, in due time waxed rich from the proceeds thereof. On a later occasion when the donor seemed to be in need of money, and probably was, Canfield offered a share of his wealth. Doheny declined with the dignified independence of the true prospector. There were no strings on his gifts, he explained. Still, he harbored no resentment against Canfield for the generous offer. On the contrary the two were afterward closely associated in business until Canfield's death.

Again Doheny struck silver and struck it rich, near El Paso, Texas. But the decline in the value of silver made his claim valueless, so he resumed his weary quest once more.

Nineteen years of prospecting for the precious metals with no luck to speak of by no means discouraged Doheny. To his mind the prospector who is willing to devote all, or any necessary part of his life, undergoing continuous privation and peril, to the chance of winning fortune at last, is a vastly superior character to the man willing to spend his life working for wages. In fact, Doheny's pet grievance, now that he can afford such a luxury, is that writers of popular fiction waste such quantities of perfectly good paper glorifying the cowboy, who is looked down upon with infinite scorn by prospectors as a mere wage slave of no aspirations and of no particular account; yet none of these writers ever seem so hard up for a hero as to make one out of a prospector. At this point **Doheny takes malevolent delight in calling attention to the fact that whereas there are lots of prospectors, such as John Hays Hammond, W. A. Clark and others of that type, living in the finest house in New York, Los Angeles, Washington and other eligible localities there are no cowboys inhabiting palaces.**

The First Search for Oil

In 1892 Doheny began prospecting for oil. Indications of oil had been noted in California since the State was first settled. As early as 1865 there was a wild oil craze in the Golden State. No fewer than 65 oil companies were organized with an aggregate capitalization of $45,000,000, none of which ever yielded any returns except those derived from the pockets of the credulous. At various times later attempts were made to produce oil in paying quantities in California, but without satisfactory result.

One day in the fall of 1892 Doheny saw a negro hauling a load of black, tarry stuff in Los Angeles which he said was "brea" to be used for fuel; for coal in those days cost almost as much in Los Angeles as it does today in the Eastern coal regions. Knowing that "brea" was an oil exude Doheny leased a vacant lot at Patton and State streets, near where the negro had loaded his wagon, and sunk a shaft to a depth of 150 feet when he struck oil in small quantities. It was the first and last time petroleum has ever been mined. A well driven 75 feet deeper yielded oil in paying quantities.

Organizing a company of which he retained control to develop his discovery Doheny did what so many others had failed to do: he made California oil pay. As soon as his first venture was on a profitable basis Doheny resumed prospecting. He soon developed the first paying wells in the great Bakersfield and Fullerton fields.

Like other successful men Doheny realized that it was not enough to produce a commodity. Unless markets are also found the enterprise must fail. As one way of disposing of California oil Doheny induced the Santa Fe Railroad, through Vice-President A. A. Robinson, to use it for locomotive fuel. The new fuel was so satisfactory that when Robinson became president of the Mexican

JOHN D. ROCKEFELLER

As he looked when starting out forty years ago. Like Rockefeller, Doheny built his original fortune on an initial capital of nothing at all. But there the parallel ends.

Central Railroad he urged Doheny to go to Mexico to see if he could not find oil there to take the place of the inferior but costly coal then used.

Doheny agreed; but instead of going afoot with a burro to carry his pick, shovel and frying pan, he traveled in a private car with letters from President Robinson asking representatives of the road in Mexico to do all in their power to further his search, and accompanied by his friends, C. A. Canfield and A. P. McGinnis.

When Oil Was Found in Tampico

In May, 1900, the party found indication of oil 35 miles West of Tampico. At the same time they were discovered by Americans at Tampico who forthwith undertook to get rich quick, not by filing oil claims, but by attempts on Doheny's pocketbook in the guise of agents for him. Doheny fled as fast as the private car could turn its wheels. Months later, when the Americans were off guard he stole back and purchased the Hacienda del Tulillo, of 280,000 acres for $325,000, with which price the former owner professed himself satisfied, even after millions of dollars worth of oil had been taken from the property. Afterward 150,000 acres more were purchased adjoining the original tract.

Like all his countrymen the Mexican lawyer engaged to attend to the details of the transfers regarded the Doheny party as very foolish persons to spend money for jungle land under the delusion that they could find oil there. Still, since they were determined to ruin themselves he did all he could for them, including procuring an introduction to President Diaz, who was sympathetic and helpful, though he had no faith in the undertaking.

Doheny and associates paid out $600,000 in cold cash and obligated themselves to spend $500,000 in developing their purchase within five years. Their only real asset, so they thought, was a contract with the Mexican Central Railroad to purchase oil for fuel if they ever found any.

In February, 1901, the Mexican Central put in a short siding in the jungle 613 kilometers south of Aguascalientes, and the first attempt to develop Mexican petroleum was begun by building houses for the superintendent and employees to live in and plants to furnish them distilled water, ice and current to run electric fans to make the torrid nights endurable.

The camp was begun February 12; May 1 the first rig was ready to begin drilling. May 14, 1901, the first oil well was brought in. The flow was very moderate, but enough to prove that the oil was there.

Marketing Difficulties

Pursuant to contract the Mexican railroad management was notified by wire that a supply of oil was available and it was requested to turn over a locomotive to be equipped at the expense of the Doheny company to demonstrate the practicability of oil for fuel. In good time came a letter announcing that the railroad company had repudiated the contract. For five years the railroad bought no Mexican oil.

In fact, Doheny and his associates were destined to find that it was one thing to produce oil in Mexico and quite another thing to sell it. By organizing a company to pave the capital and other cities of Mexico, by putting up a small refinery to supply local needs and creating other outlets the company contrived to pull through some very lean years. The outlook was so discouraging that most of the stockholders, including 54 men of national prominence who proved to be forward looking, but not forward seeing, sold out, so that the stock became concentrated in very few hands.

No wonder the faint hearted became discouraged; for about that time oil was selling in the newly discovered field near Beaumont, Texas, at 3 cents a barrel. The numerous uses for petroleum and its by-products had not then been developed as they are today. Only a few railroads used oil in a small way for locomotive fuel; and, of course, the automobile had not then attained its marvelous development.

To cap the climax Prof. Aguilera, presi-

dent of the Geological Institute of Mexico City, had announced, prior to the advent of Doheny, that there was no oil in the Republic. Hence he was deeply aggrieved by Doheny's conduct in disproving his theory. So it happened that for several years, even when the pioneer wells were producing at the rate of a thousand barrels a day, the public records of Mexico did not show any production whatever.

While Prof. Aguilera refused to recognize the existence of oil officially he was privately active in trying to take advantage of Doheny's discovery. He induced President Diaz to appoint a committee to ascertain whether or not petroleum could be nationalized; that is, included among the minerals the government could reserve even under the surface of privately owned lands—the identical thing Carranza years afterward tried to do under the notorious Article 27. The Diaz committee after due investigation reported that the government had no claim to oil under the surface.

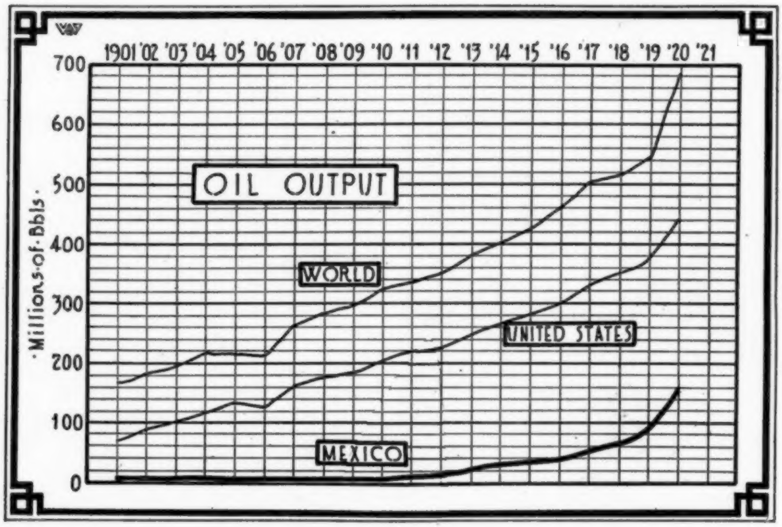
For several years the Mexican Petroleum Company, the original Doheny concern, was the only oil company in Mexico; the difficulties were so great that others were discouraged. But Doheny and Canfield continued prospecting north and south of Tampico on foot, on horseback, in a private car and even on a yacht on which they penetrated rivers as far as the draught of the vessel would permit. Their quest was well rewarded; for they discovered extremely valuable oil lands.

Cecil Rhodes' feelings would have been more deeply wounded than those of Prof. Aguilera by the conduct of Doheny and Canfield if he had lived, for they had the effrontery to bring in the greatest oil well in the world, Cerro Azul No. 4, flowing 261,000 barrels a day a short distance from where the South African empire builder had spent half a million dollars in a futile search for oil.

Success

In the end a sufficient market was established to enable the pioneer company to pay dividends; then others began to enter the field. By the time the world war began facilities had been developed to supply the enormous demands of the allied fleets and armies. Without Mexican oil the war for civilization would have been lost. The fact provides a measure by which to gauge the service rendered to mankind by E. L. Doheny, prospector.

In appearance E. L. Doheny is a rather unobtrusive figure with snow-white hair and mustache. He is drawing dividends now on the years he lived in the open; for he is as vigorous as many a man half his 65 years. Although the Southwest in his prospecting days was wild and lawless he never toted a gun, but relied on his two good fists to protect his rights when protection was needed. He does not drink, smoke, swear nor play golf. For exercise he walks, swims, plays tennis and takes a keen interest in politics. For recreation he works, collects palms and, on occasion, demonstrates that he is one of the few who can throw the diamond hitch with one hand. His collection of palms at his Los Angeles home is said to be the finest in existence. Expeditions he has sent palm hunting in Central America have brought out species hitherto unknown. He has a lively sense of humor, something of a gift as a raconteur, and a fund of anecdotes of his variegated experiences worth hearing.



MEXICO'S PRODUCTION JUMP

The above chart shows the great increase scored in the production of Mexican oil, especially during the war period from 1914 on, Mexican Petroleum, the greatest independent in the field, has contributed very largley to this increase under Doheny's management.

United States Petroleum Production

Steady Increase Shown

THE attached table is of considerable interest and importance because it shows what is not generally known among those not directly engaged in the industry that petroleum production in this country has shown a steady advance marked by comparatively few setbacks in the past three years. Thus in 1919 the average monthly production was around 30,000,000 barrels but had increased to a monthly average of around 35,000,000 barrels in 1920 and this year will undoubtedly show an average of about 39,000,000 barrels, assuming a slight falling off in production during the balance of the year.

This great increase in production indicates a growing demand for petroleum and its products. The encouragement which has been given the industry by the world-wide demand for oil has resulted in many new drilling operations in various sections not only of this country but in other countries where previously oil was an unknown quantity, and the result has been to greatly stimulate the demand and use for this product.

Petroleum Production

	—Barrels (000 omitted)—		
	1919	1920	1921
January	30,196	33,774	37,853
February	26,910	32,732	35,348
March	30,234	35,831	40,965
April	29,995	36,503	41,920
June	31,644	36,946	40,412
July	33,894	38,203	40,328
August	33,862	39,055	40,964
September	33,667	37,532	....
October	33,319	38,592	....
November	32,114	38,699	....
December	32,508	38,961	....

Viewed broadly there is little reason to doubt that over a period of years the demand for oil will increase even above that of the present. The scramble for oil in many parts of the world may thus be viewed not as the result of speculative undertaking but as the result of the underlying demand for the commodity. It is a safe assertion that until an efficient substitute is found for oil its use will continue to spread in world-wide footing.

The industry, of course, has its ups and downs and individual interests have suffered exceedingly on account of the drop in oil prices during the early part of the year. However, essentially the industry may be regarded as basic and those concerned financially in any of its various phases need not be alarmed at any of its temporary manifestations.

Under present conditions, the statistical position may be regarded as not too satisfactory but considering the more fundamental aspects of the case, it is doubtful if as much oil is being produced to-day as the world will be able to consume when conditions are generally more readjusted.

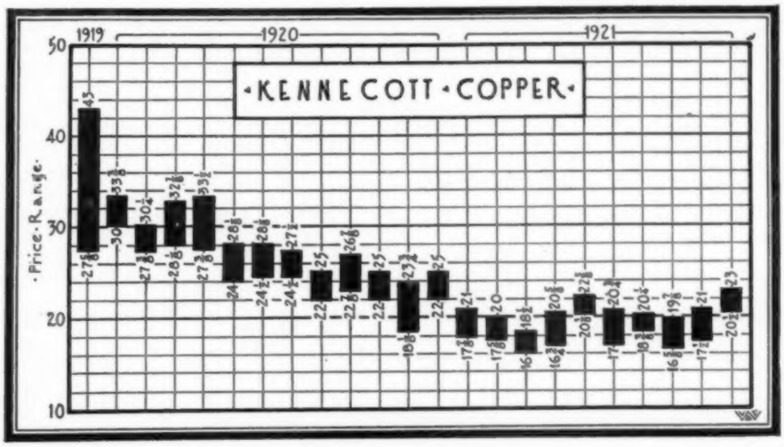
Mining

Kennecott Copper Corporation

Operating—and at a Profit!

Kennecott One of Few Large Producers Doing These Things—Shares Appear Attractive

KENNECOTT is one of the few large copper producers that is still operating, and what is of greater interest, operating at a profit. It has the advantage of being able to produce copper at a cost which is between two and three cents less than the present market price of the metal. It has the further advantage of being a holding company, with its risk distributed both geographically and geologically, for its important property interests are located in Alaska, Utah and Chile, while the ores of its mines vary in character from high grade material containing 70% copper, to low grade ore assaying less than 2% copper. Its average monthly production was more than 5,590,000 lbs. of copper since the beginning of this year, and this metal has been produced at a profit.



Kennecott's Alaska Properties

When the company was incorporated in April, 1915, it acquired the properties of the Kennecott Mines Co., which was later dissolved. The properties so acquired are located about three miles from Kennecott, on the Copper River and Northwestern Railway, and include the famous Bonanza and Jumbo mines, which had been developed by a syndicate composed of J. P. Morgan & Co., Guggenheim Bros. and Kuhn, Loeb & Co. This development began as early as 1906, and involved the expenditure of over $20,000,000 in the contsruction of about 200 miles of railroad from the mines to the seaboard, in addition to the development and early exploitation of the mines.

The Bonanza mine is believed to contain one of the most remarkable ore bodies ever found. Some of this ore carries over 60% copper, and outcrops on the crest of a precipitous mountain overlooking the Kennecott River. The ore occurs in irregular masses, and the outcrop is 20 to 30 feet wide, exposed over a length of 400 feet. The ore contains bands of chalcocite from 4 to 10 feet in width. An immense amount of ore was found in the form of slide rock broken off from the outcrop. This mass of broken ore was 300 feet wide and extended for about 500 feet down the slope of the mountain, and varied in depth from 3 to 20 feet. Some of this material assays more than 13% copper. The mine is developed by tunnels to a depth of over 1,100 feet. New underground development work has been performed each year, varying in amount from 10,000 to 15,000 feet. The more recent discoveries of importance are the large ore bodies on the 600 ft. level of the Bonanza mine, and on the 900 ft. level of the Jumbo mine. In 1919 a new two-compartment shaft was completed to a depth of 800 feet at the Bonanza property and a two-compartment inclined shaft was sunk to a depth of 500 feet at the Jumbo mine. Some of the ore bodies on the lowest level are larger and even higher grade than those on the upper levels.

The company's 700-ton concentrator, steam power plant and air compressors, bunk house, boarding house, saw mill and assay office, are located at the lower camp. The ore from the mines is brought down over an aerial tramway 15,000 feet long, and with a drop of 4,000 feet. The main tram line cables are supported on 40 towers, the longest tram being 1,500 feet. The tramway has a daily capacity of 600 tons.

Kennecott owns over 90% of the capital stock of the Beatson Copper Co. The Beatson property, which includes 17 patented mining claims, is located about three miles from the northern end of Latouche Island, within one-half mile of Tidewater, where there is a great natural harbor. The mine was discovered in 1897 and began shipping in 1903. The chief ore body is a large lens, containing the minerals chalcopyrite, pyrite, and pyrrhotite, with an average width of about 100 feet and a total developed length of about 800 feet. The ore is low grade as compared to that of the Bonanza and Jumbo properties, although selected samples will assay as high as 30% copper. The average run of mine material as shipped, returns about 7¼% copper and two ounces silver per ton.

The Beatson mine is opened by over 20,000 feet of underground working. The milling equipment consists of a 1,500-ton concentrator, employing oil flotation. The ore is mined in an open pit and dropped through the workings to the main tunnel level, whence it is transported to the mill by an aerial tramway.

Prior to their acquisition by the Kennecott Mines Corporation, the properties of the Kennecott Mines Co. produced from 14,000,000 to 22,000,000 lbs. of copper per annum, at a cost varying from 4c to 5¾c per lb.; and the production of the Beatson properties varied from 3,000,000 to 6,000,000 lbs. of copper per annum, at a cost ranging from 5c to 11½c per lb. Obviously these low costs were obtainable on account of the relatively high grade ore treated.

Alaska Production

The production of these Alaskan properties was at a maximum rate about the middle of 1916, when the yield was 10,750,000 lbs. of copper during the month of July. From that time on the production fell off until it reached about 5,500,000 lbs. in September, 1918. Thereafter, published production reports include Braden with Kennecott, thus concealing the individual output.

In May, 1919, the Mother Lode Coalition Mines Co. was incorporated, with capital stock consisting of 2,500,000 shares of no par value. Kennecott owns 1,275,000 of these shares, or 51%. The Coalition Company has a contract with the Kennecott Copper Corporation for the treatment of its ores, which provides for charges similar to those enjoyed by Kennecott. The property consists of 83 lode and placer claims adjoining the Bonanza mine. The

geological conditions are similar to those obtaining in the Bonanza property. The underground development consists of nearly 13,000 feet of tunnels, shaft, crosscut and raises. A 1,400 ft. tunnel has been driven to connect the Mother Lode and Kennecott workings. Electric locomotives are used on this level to haul ore to the Kennecott tramway. The property is believed to have considerable merit, and should prove profitable under Kennecott's control.

Through its subsidiary, the Alaska Development & Mineral Co., of which Kennecott owns the entire capital stock, it secures a controlling interest in the Bering River Coal Co., a corporation formed to develop and operate coal fields in Alaska.

The Alaska Steamship Co. is controlled by Kennecott through stock ownership, and has a fleet of steamships operating between Puget Sound ports and various ports in Alaska. The shipping company's steamers are engaged in general transportation business, and also in carrying the ore and concentrates of Kennecott Alaskan properties to Puget Sound ports for smelting. These steamships connect with other steamship and railroad facilities, such as the Copper River & Northwestern Railway at Cordova, the Juneau Steamship Co. at Juneau, the White Pass & Yukon Railway at Skagway, the Alaska Northern Railway at Seward, and the American Yukon Navigation Co. at St. Michael.

The Copper River & Northwestern Railway Co. is controlled by Kennecott through stock ownership, and is a modern, well equipped, standard grade road running in a northeasterly direction in the Copper River Valley, through Chitina, then in an easterly direction to Kennecott, a total distance of 196 miles from the shipping point at Cordova.

Additional Properties Taken Up

During the past year the company has taken up numerous additional properties, including 35 claims located and surveyed, covering ground adjoining the former northern boundary line between the Jumbo and Erie mines; and at Latouche, 23 claims were located to cover ground which may be developed from the company's present workings. Records indicate that Kennecott ores milled during 1920 totaled 199,656 tons, assaying 6.82% copper, of which 82.29% was recovered in the form of concentrates. In addition to the Kennecott ores, the Kennecott mills also treated 67,567 tons of ore for the account of the Mother Lode Coalition Mines Co. The cost of milling during 1920 was 76c a ton. The leaching plant at Kennecott treated 190,327 tons of milled gailings assaying 1.14% carbonate copper, with a recovery of 3,332,500 lbs. of copper in the form of precipitate assaying 74.75% copper, the percentage of recovery being 74.5%. Leaching costs were $1.33 a ton. The total recovery of copper in all ores treated, milling and leaching combined, was 90.1%. Milling operations at the Latouche plant involved the treatment of 451,863 tons of ore assaying 1.77% copper. From this material, 44,268 tons of concentrate were produced, assaying 15% copper. The average recovery was 82.85%.

During the year 1920 the company performed 13,630 feet of development work in the Kennecott properties, for the purpose of opening new ore bodies, and the further development of known deposits preparatory to scoping. In addition, 14,936 feet of diamond drilling was done. At the Latouche property a total of 8,652 feet of raising and drifting was performed, and also 4,846 feet of diamond drilling. Most of this work was for the purpose of preparing the ore for scoping, although a small proportion was devoted to the development of new ore bodies.

The Properties in Chile

Kennecott owns 99% of the capital stock of the Braden Copper Mines Co., which in turn owns the entire capital stock of the Braden Copper Co. The Braden Copper Co. owns and operates the Teniende Mines, consisting of some 655 claims, having an area equivalent to 8,168 acres. The mines are reached from Valparaiso by the Chilean State Railroad, 158 miles to Rancagua, and from that point by the company's narrow-gauge railway, 43 miles to the smelter and mill at Sewell, and 1½ miles further to the mine. The elevation is 8,000 to 9,000 feet. The ore deposit consists of a series of irregular lenses of ore, formed about the border of an old volcanic crater, a nearly circular section 4,000 feet in diameter. Five distinct ore bodies have been proven, and four of these are being worked. The zone of oxidation is shallow, ranging from a few feet to 150 feet in depth, and as the deposit consists of disseminated ore, it is believed that values will persist to considerable depth.

The company's concentrator has a daily capacity of 6,000 tons, and the construction of a new 10,000 ton plant is underway. There is also a complete smelting plant, as well as a hydro-electric power plant.

Braden owns its own railway line, extending from Sewell to Rancagua, a distance of 45 miles. At Rancagua the company road connects with a government-owned railway which runs to Valparaiso on the seacoast. The ore consists of shattered andesite, often finally brectiated, with copper minerals filling the cracks and openings. On Dec. 31, 1920, the ore reserves consisted of 176,640,000 tons of positive ore, averaging 2.45% copper, and 87,750,000 tons of probable ore, averaging 1.87% copper. The company treated 2,205,200 tons of ore during 1920, a daily average of 6,025 tons, and produced 32,459 tons of copper.

It is believed that the more important metallurgical problems of the company have been solved, and with the completion of the plant extensions now underway, and the new smelter at Caletones, that the company will earn large profits. The extent of the ore deposit is undetermined, but the known ore reserve will last over 35 years on a 10,000 ton a day basis. This big subsidiary has absorbed more than $30,000,000 for development and improvement to date.

Utah Copper Holdings

In 1915 Kennecott shareholders acquired 434,504 shares of the capital stock of the Utah Copper Co. in exchange for 606,756 shares of stock of the Kennecott Copper Corporation. The basis of exchange was 1⅓ shares of Kennecott for one of Utah. Since that transaction, Kennecott has acquired shares of Utah Copper Co. in the open market, until it holds 616,504 shares out of 1,624,490 shares outstanding, or nearly 38%.

Funded Debt

On February 1, 1920, Kennecott sold $15,000,000 ten-year secured 7% gold bonds at 95%. The bonds are secured by pledge under a collateral indenture with the Bankers Trust Co., trustee, of 500,000 shares of the capital stock of the Utah Copper Co. The proceeds of this issue were used to pay $12,000,000 Kennecott Copper Corporation notes, maturing March 1, 1920, and to provide additional working capital.

The company's capital stock consists of 2,787,081 shares of no par value outstanding, out of a total authorized issue of 3,000,000 shares.

The company's dividend record dates from March 1, 1916, when the initial dividend was paid. Disbursements have been as follows: $5.50 in 1916, $5.70 in 1917, $4.00 in 1918, $2.00 in 1919, $2.00 in 1920, the last quarterly payment of 50c a share being made on Dec. 31, 1920. The dividend was passed on March 1, 1921, and no payments have been made since the beginning of the present year.

During 1919 the company's shares were quoted as high as 43 and as low as 27⅝. During 1920 the range was from 33½ to 14⅝. The monthly price range of the shares since the beginning of 1919 is illustrated in the accompanying graph.

Under present improving conditions in the copper situation, in consideration of the fact that Kennecott is continuing to operate at a profit in times when most other large producers are shut down, and on account of its substantial interest in Utah Copper, the shares should be attractive at the present time, especially as they are beginning to indicate a tendency to discount the better times for copper that are approaching.

Securities Analyzed in This Issue

Banks

Bonds

Railroads

Industrials

Petroleum

Mining

Public Utilities

Earnings on Upgrade

Figures Prove Corner Has Been Turned

FIGURES mean more than forecasts. Actual results are a better index than probable results.

Hence, on this page, which is generally devoted to a review of the current market in unlisted public utility securities, we insert a tabulation of public utility earnings, showing the results achieved by companies in this field in recent months, and comparing them with the results arrived at last year.

A study of the table demonstrates, beyond question, that the major number of the American public service corporations are making real progress toward the era of renewed prosperity so freely predicted in these columns recently. As stated on another page, there are exceptional cases where declines in the amount of business done have, to some extent, neutralized the declines scored in operating costs (including labor wages, cost of materials, etc.); but it is apparent that the general trend is toward greater profits.

Investors' Opportunity

The present, according to the figures, is certainly the day of opportunity for the sagacious investor. We long since emerged from the period of huge speculative profits—the war period; more recently, we got through the day of reckoning, in which inflation in security prices had its inevitable result; now we seem to be in the midst of a typical investor's market, in which high-grade securities, responding to the trend toward normal, real and wholesome conditions, are in the best position and yielding the greatest profits.

That public utility companies outrank companies of most other sorts in point of stable earning power becomes apparent after a moment's reflection. Their development, and resultantly higher earning power, depends upon the development of communities. The development of communities depends generally upon such normal, basic factors as increases in population, extension of residential or business districts, and so forth. Although "booms" such as we had during the war are bound to increase a utility's gross business, their value is generally neutralized, as in this case, by increased costs. The best thing for utility companies, as a class, is steady, slow, normal development. This is the sort of development the country seems to be facing today.

What Securities?

The question, "What public utility securities are the best investments today?" is only answerable after individual research. A glance at our Unlisted Bond Index—appearing on a following page—shows that there are many issues offering high yield. This high-yield

(Continued on page 57)

Public Utility Earnings

1920 vs. 1921

ADIRONDACK POWER & LIGHT CORP.

	Gross Earnings	Net After Taxes	Fixed Charges		Net Income
August, 1920	$387,556	$48,930	$64,495	def.	$15,565
August, 1921	396,381	66,834	75,250	def.	8,416
12 months to Aug. 31, 1920......	$4,417,888	$1,351,351	$627,065		$724,286
12 months to Aug. 31, 1921......	4,790,826	1,408,851	909,252		499,599

ALABAMA POWER CO.

	Gross Earnings	Net After Taxes	Fixed Charges		Net Income
August, 1920	$349,417	$160,695	......		......
August, 1921	361,855	167,189	......		......
12 months to Aug. 31, 1920......	$3,768,540	$1,982,750	......		......
12 months to Aug. 31, 1921......	4,503,576	2,252,955	......		......

APPALACHIAN POWER CO.

	Gross Earnings	Net After Taxes	Fixed Charges		Net Income
September, 1920	$217,309	$109,473	$56,525		$52,948
September, 1921	213,582	96,409	56,881		39,528
12 months to Sept. 31, 1920......	$2,050,191	$943,044	$639,395		$303,649
12 months to Sept. 31, 1921......	2,493,624	1,051,467	678,706		372,761

CLEVELAND ELECTRIC ILLUM. CO.

	Gross Earnings	Net After Taxes	Fixed Charges		Net Income
12 months to Aug. 31, 1920......	$11,700,465	$3,350,085	$2,110,370		$1,239,715
12 months to Aug. 31, 1921......	13,323,158	4,567,750	2,865,052		1,702,698

CONNECTICUT POWER CO.

	Gross Earnings	Net After Taxes	Fixed Charges		Net Income
August, 1920	$119,512	$33,341	......		$13,726
August, 1921	123,889	37,652	......		17,646
Jan. 1 to Aug. 31, 1920..........	$1,406,892	$565,063	......		$328,340
Jan. 1 to Aug. 31, 1921..........	1,480,396	584,891	......		344,249

MISSISSIPPI RIVER POWER CO.

	Gross Earnings	Net After Taxes	Fixed Charges		Net Income
August, 1920	$241,995	$187,162	......		$36,758
August, 1921	221,729	162,550	......		59,084
Jan. 1 to Aug. 31, 1920..........	$2,668,651	$2,098,928	......		$580,843
Jan. 1 to Aug. 31, 1921..........	2,780,262	2,069,562	......		835,139

NASHVILLE RAILWAY & LIGHT

	Gross Earnings	Net After Taxes	Fixed Charges		Net Income
August, 1920	$278,192	$21,712	$40,224	def.	$18,512
August, 1921	301,421	52,095	38,997		13,098
12 months to Aug. 31, 1920......	$3,559,486	$744,394	$478,270		$266,124
12 months to Aug. 31, 1921......	3,765,155	726,342	475,401		250,941

PORTLAND RY., LIGHT & POWER

	Gross Earnings	Net After Taxes	Fixed Charges		Net Income
August, 1920	$807,751	$236,018	$187,508		$48,510
August, 1921	781,547	213,462	186,472		26,990
12 months to Aug. 31, 1920......	$9,042,269	$2,801,251	$2,257,798		$543,453
12 months to Aug. 31, 1921......	10,064,468	3,227,148	2,237,438		989,710

PUGET SOUND POWER & LIGHT

	Gross Earnings	Net After Taxes	Fixed Charges		Net Income
August, 1920	$764,234	$292,735	......		$134,662
August, 1921	758,039	286,022	......		190,666
Jan. 1 to Aug. 31, 1920..........	$9,631,199	$3,975,471	......		$2,130,334
Jan. 1 to Aug. 31, 1921..........	10,201,218	4,245,259	......		2,390,051

SOUTHWESTERN POWER & LIGHT
(Subsidiary Companies Only)

	Gross Earnings	Net After Taxes	Fixed Charges		Net Income
August, 1920	$775,362	$203,777	......		......
August, 1921	776,480	323,736	......		......
12 months to Aug. 31, 1920......	$7,900,266	$3,080,296	......		......
12 months to Aug. 31, 1921......	10,262,358	3,969,559	......		......

STANDARD GAS & ELECTRIC

	Gross Earnings	Net After Taxes	Fixed Charges		Net Income
12 months to Aug. 31, 1920......	$30,297,819	$10,907,873	......		......
12 months to Aug. 31, 1921......	34,734,254	11,743,041	......		......

UTAH POWER & LIGHT

	Gross Earnings	Net After Taxes	Fixed Charges		Net Income
August, 1920	$531,042	$258,258	$144,079		$114,174
August, 1921	549,260	272,500	145,104		127,396
12 months to Aug. 31, 1920......	$6,284,700	$3,088,492	$1,671,500		$1,361,992
12 months to Aug. 31, 1921......	6,895,168	3,413,080	1,725,878		1,687,202

Are Utility Bonds Good Investments?

An Analysis of the Active Unlisted Issues

By **J. E. HALSTED**

INVESTORS are, by now, thoroughly familiar with the conditions under which the public utility companies operated during the war period. The fact that concerns of this type underwent a fire and water test of increased operating costs, due to the inflationary period through which the whole world was passing, is generally understood.

Therefore, the recent period of industrial depression and lowering prices succeeding the years of industrial activity and high prices, has been taken as a signal for optimism as to the outlook for the utilities generally. It has been assumed that, with the companies now in a position to scale down operating costs, their net results must necessarily prove much better.

This assumption is warranted in many cases; and it is being borne out in some of these cases by the financial statements recently made public. However, the assumption is most certainly not justified in the case of *all* public utilities.

In a word, all public utilities are not doing better just because costs are lower. Most of them are, themselves, being adversely affected by the very depression that is helping to reduce their operating costs; and, as a result, their total sales or gross revenues are less than formerly.

Why some public utilities should be earning less today, despite lower operating costs, must be apparent after a moment's reflection. Everybody realizes that the public is no longer rolling in wealth; that it has to economize nowadays in ways that it didn't have to economize before; that housewives, for example, are watching the gas meter more closely, burning the electric lights in their homes with a little less abandon; that a good many less trolley rides, even, are being taken today than used to be taken. Factors such as these, in not a few cases, translate into less business for the operating companies and, necessarily, supply an off-set to the declines registered in operating costs.

These words of caution are injected here for an obvious reason—to restrain the investor readers of these pages from indiscriminate purchases of public utility securities.

Utility Bonds on Upswing

That the trend in public utility bonds is toward higher levels, purely because of the nature of the business the public utility companies do, remains unquestioned. These companies, as often pointed out here, do an essential business; with due allowance for abnormal activity they are usually stable earners; and it will not be long before the investment public fully realizes the significance of this steady earning power as regards bond interest and bond prices.

Mr. Henry R. Trumbower, a member of the Railroad Commission of Wisconsin, brings out this point well. Stating that he believes the "public utility companies have had to pay too much for the money they borrow," Mr. Trumbower, in a letter to the writer, adds, "public utilities have not had the opportunities to make money that industrial concerns have had; but, on the other hand, their business is much more stabilized, and their earnings are fairly constant which should be given some recognition when it comes to fixing interest rates."

Investors who hold bonds of industrial companies that are now paying dividends and, in some cases, part of their interest charges out of surplus, would be better off if they exchanged their holdings for sound public utility bonds. Examples of bonds of this character will be found in the accompanying "Unlisted Utility Bond Index," which appears in every issue of THE MAGAZINE OF WALL STREET.

Mississippi River Power Co. —Earnings Results

	Gross earnings	Net after taxes	Bal'ce to surplus
August, 1920.	$241,995	$187,102	$86,758
August, 1921.	221,729	162,550	59,084
Jan. 1 to Aug. 31, '20	$2,668,651	$2,098,928	$886,848
Jan. 1 to Aug. 31, '21	2,789,262	2,069,562	835,130

Analyzing the "Index"

Looking over the four classes into which the unlisted public utility bonds contained in the "Index" are divided, it will be seen than the securities of the power companies and the telephone and telegraph companies are, in general, the best suited for conservative investment purposes. A comparison of the yields afforded by these groups with those of the other groups brings this fact out conclusively.

The chief strength of the companies in these classes lies in the fact that their *plants* are the important thing, and their ratio of operating expenses to revenue comparatively small. As a result, these companies were not so seriously affected by higher costs during the inflation period. They were, furthermore, greatly strengthened financially by the expansion or increased activity of industrial concerns during the war, which gave them an additional outlet for their power with a scaled-down increase in expenses. (The cost of developing and transmitting an additional 50,000 H.P. is much less than the cost of developing and transmitting the first or second 50,000 H.P.).

The gas and electric companies rank next, in point of safety and for the same reasons.

The traction companies are the most uncertain class and in the worst financial condition (as a class). This is especially true of tractions operating in New York; to only a slightly less extent it is true of the companies operating in Chicago. A large part of the electric railway mileage of New York City is in the hands of a receiver today, and one of the largest remaining systems is just on the ragged edge.

On the other hand, just as the traction companies have been the most severely affected by high operating costs, so have they the most to gain from lower operating costs. This is a point that holders of such securities, most of whom have heavy losses, can afford to consider.

Individual Securities Analyzed

American Light & Traction 6% Notes, due May, 1925.—These notes are very well suited for those seeking a high degree of safety, together with an attractive income and yield for a short period. The four principal properties of the company are the Detroit City Gas Co., the Milwaukee Gas Light Co., the St. Paul Gas Light Co. and the San Antonio Public Service Co.

The company's 1920 report indicated that net earnings available for fixed charges were approximately nine times interest charges. The capitalization of the company is as follows:

Common Stock	$26,195,000
Preferred (6%)	14,236,200
Funded Debt	6,000,000

The equity back of this issue is brought out by the fact that, in addition to preferred dividends, the company is paying 1% in cash and 1% in stock quarterly, and sells at about 95.

The yield on this issue is approximately 8% to maturity.

Buffalo General Electric 1st 5s, due February, 1939.—This is another security that is well suited to high-grade investment purposes. The maturity of this bond being considerably longer than that of the American Light & Traction issue (see above), the yield is, of course, lower.

The Buffalo bonds are secured by a first mortgage on plants supplying electric light to the cities of Buffalo, Lackawanna, Blasdell, West Seneca, Amherst, and Checktowago, N. Y.,—a total population of about 600,000. The company uses electricity generated by the Niagara Falls Power Co. and owns a 95,000 K. W. steam generating station. The franchises under which it operates are perpetual.

The 1st 5% bonds are a closed mortgage and outstanding in the sum of $2,375,000. The bonds underly the following:

$7,029,000	1st Refdg. 5s of 1939
$1,955,100	Conv. Deb. 6s of 1922
$2,000,000	Conv. Deb. 7s of 1925

The earnings reported for the year 1920 indicated that interest charges on all the bonds were earned approxi-

mately twice over, while the amount available for the 1st 5s was approximately 15 times interest requirements.

These bonds yield to maturity about 6.10%.

Mississippi River Power Co. 1st Sinking Fund 5s, due January, 1952.—Here is a high-grade security, with a long life. These bonds are secured by a first mortgage on the hydro-electric plant on the Mississippi River at Keokuk, Iowa, and Hamilton, Illinois, with an initial capacity of about 120,000 H.P. and an ultimate capacity of about 200,000 H.P.

The company furnishes current under long-term contracts for the operation of all the street railways in St. Louis, East St. Louis, and vicinity. The franchise was granted by act of Congress in 1909 and is unlimited as to time.

A sinking fund provides for the annual retirement of 1% of the bonds outstanding. There have been $1,572,000 bonds so retired. There were, on January 1, 1921, $19,025,400 bonds outstanding and $4,350,000 are reserved for extensions.

The bonds underly $3,600,000 debenture 7% bonds of 1935.

Both the gross and net earnings of the company have shown a steady annual improvement and, in 1920, net income available for interest charges on the first 5% bonds was about twice interest requirements.

However, in this connection it should be noted in the accompanying table, that recent earnings statements indicate that the company is not doing as well as it did last year. This also holds true for August, the latest month reported. Before buying these bonds, therefore, it might be well to watch the earnings for a few months to see if they are likely to have any effect on the company's ability to pay the bond interest.

At their present price, the 1st 5s give a yield to maturity of about 6.60%.

The annual report of the **Potomac Electric Power Co.** for calendar year of 1920 was recently published and the following extracts are taken from it:

Potomac Electric Power Co.—This subsidiary (of the Washington Railway & Electric Co.) has had by far the greatest year in its history. Its electric light and power customers have increased from 41,559 to 48,122. The sale of electric current amounted to $4,128,766, or an increase of 21.25% over 1919.

	1920	1910
Total installed meters, No.	48,122	14,004
K.W. hours sold, in millions	120	24
Population served, in thousands	456	346

Payrolls aggregated $4,388,200, an increase over 1919 of $562,301, or 14.8%.

	12 Months Ended June 30	
	1920	1921
Gross earnings	$4,022,263	$4,884,227
Operating expenses	2,362,903	2,794,145
Net earnings	$1,659,360	$2,090,082
Annual bond interest	611,000	611,000
Balance surplus	$1,048,360	$1,479,082

The report also states that the company has been paying dividends on the $5,750,000 common stock and $250,000 preferred stock at the rate of 8% in

(*Continued on page 67*)

UNLISTED UTILITY BOND INDEX

GAS AND ELECTRIC COMPANIES

	Recent Asked Price*	Yield
Bronx Gas & Electric Co. First 5s, 1960 (a)	72	7.15%
Buffalo General Electric First 5s, 1939 (c)	90	5.90
Canton Electric Co. First 5s, 1937 (b)	87	6.30
Cleveland Electric Ill. Co. 5s, 1939 (b)	90	5.90
Cleveland Electric Ill. Co. 7s, 1935 (a)	103½	6.60
Denver Gas & Electric Co. First 5s, 1949 (c)	83½	6.25
Duquesne Light Co., Pittsburgh, 7½s, 1936 (b)	100¼	7.45
Evansville Gas & Electric Co. First 5s, 1932 (a)	80	7.70
Kansas Elec. Utility First 5s, 1925 (c)	83	10.30
Kansas Gas & Electric 5s, 1922 (a)	98½	6.60
Indianapolis Gas Co. 5s, 1952 (a)	79	6.60
Los Angeles Gas & Electric Gen. 7s, 1931	97	7.45
Louisville Gas & Elec. Ref. 7s, 1928 (c)	98½	7.80
Nevada-Cal. Electric First 6s, 1946 (c)	86	7.20
Oklahoma Gas & Electric Co. First & Ref. 7½s, 1941 (c)	97	7.80
Oklahoma Gas & Electric Co. First Mtge. 5s, 1929 (a)	83½	7.80
Peoria Gas Electric 5s, 1923 (a)	96	7.70
Rochester Gas & Electric Corp. Series B 7s, 1946 (b)	101¾	6.85
San Diego Cons. G. & El. First Mtge. 5s, 1939 (a)	85	6.40
San Diego Cons. G. & El. First Mtge. Ref. 6s, 1939	91	6.85
Standard Gas & Electric Conv. S. F. 6s, 1926 (b)	91	8.20
Standard Gas & Electric Secured 7½s, 1941 (c)	94	8.10
Syracuse Gas Co. First 5s, 1946 (a)	82	6.45
Twin-State Gas & Electric Ref. 5s, 1953 (c)	70	7.45

TRACTION COMPANIES

Arkansas Valley Ry. L. & P. First & Ref. 7½s, 1931 (b)	96	8.10%
American Light & Traction Notes 6s, 1925 (c)	94¾	7.55
Bloomington, Dec. & Champ. Ry. Co. First 5s, 1940 (a)	66	8.65
Danville, Champ. & Decatur 5s, 1938 (a)	68	8.60
Georgia Ry. & Power 5s, 1954 (b)	76	6.85
Kentucky Traction & Terminal 5s, 1951 (a)	63	8.40
Knoxville Ry. & Light 5s, 1946 (b)	67	8.10
Milwaukee Light, Heat & Traction 5s, 1929 (a)	86	7.35
Milwaukee Elec. Ry. & Light 7s, 1923 (c)	99	7.50
Milwaukee Elec. Ry. & Light 20 year 7½s, 1941 (b)	98½	7.65
Monongahela Val. Trac. Co. Gen. Mtge. 7s, 1923 (c)	95	9.80
Memphis St. Ry. 5s, 1945 (a)	64	8.55
Northern Ohio Trac. & Lt. 6s, 1926 (c)	80	11.30
Northern Ohio Trac. & Light 6 Year Sec. 7s, 1926 (c)	94	7.95
Nashville Ry. & Light 5s, 1953 (a)	75	6.95
Portland Ry. P. & L. 1st Lien & Ref. Ser. "A" 7½s, '46 (c)	96½	7.80
Topeka Ry. & Light Ref. 5s, 1933 (c)	65	10.10
Tri-City Ry. & Light 5s, 1930 (c)	89	8.20
United Light & Rys. Ref. 5s, 1932 (c)	82	7.40
United Light & Rys. Notes 8s, 1930 (c)	99	8.15

POWER COMPANIES

Adirondack P. & Lt. Corp. First & Ref. Gold 6s, 1950	91	6.70%
Adirondack El. Power Co. First 5s, 1962	86	5.90
Alabama Power Co. First 5s, 1946 (a)	83	6.35
Appalachian Power Co. First 5s, 1941 (a)	77½	7.10
Calif. Oregon P. Co. First & Ref. 7½s, Series A, 1941 (c)	100	7.50
Cent. Maine P. Co. First & Gen. Mtge. 7s, Series A, 1941	98	7.20
Cent. Maine Power Co. 5s, 1931 (a)	87	6.80
Cent. Georgia Power First 5s, 1938 (c)	74	7.75
Columbus Power Co. (Georgia) First 5s, 1936 (a)	85	6.60
Colorado Power Co. First 5s, 1953 (c)	78	6.65
Consumers Power Co. (Mich.) 5s, 1936 (a)	85½	6.50
Electric Dev. of Ontario Co. 5s, 1933 (b)	87½	6.50
Great Northern Power Co. First 5s, 1935 (a)	88	6.65
Great West. P. Co. First & Ref. 7s, Series B, 1950 (a)	97½	7.20
Great West. P. Co. 5s, 1946 (a)	85	6.15
Hydraulic Power Co. First & Imp. 5s, 1951 (b)	86	6.00
Idaho Power Co. 5s, 1947 (a)	82	6.45
Kansas City Power & Lt. 8s, 1940 (c)	102	7.80
Kansas City Power & Lt. First 5s, 1944 (c)	80	6.75
Laurentide Power Co. First 5s, 1946 (b)	85	6.20
Madison River Power Co. First 5s, 1935	91	5.95
Mississippi River Power Co., First 5s, 1951 (c)	84	6.15
Niagara Falls P. Co. First & Cons. Mtg. 6s, 1950 (b)	96	6.30
Ohio Power First & Ref. 7s, 1951 (c)	98	7.65
Penn. Ohio Power & Lt. Notes 8s, 1930 (c)	96½	8.55
Potomac Electric Power Gen. 6s, 1923 (c)	93½	6.40
Puget Sound Power Co. First 5s, 1933	85	6.85
Salmon River Power First 5s, 1952 (c)	85	6.05
Shawinigan Water & Power Co. First 5s, 1934 (b)	91	6.00
Southern Sierra Power Co. First 6s, 1936 (c)	91	6.95
S. W. Power & Lt. First 5s, 1943 (c)	81	6.65
West Penn. Power First 7s, 1946 (c)	99½	7.05

TELEPHONE AND TELEGRAPH COMPANIES

American Tel. & Tel. 3-Year 6s, 1922 (c)	100½	5.45%
American Tel. & Tel. 5-Year 6s, 1924 (c)	100	6.00
Bell Tel. Co. of Canada 1st 5s, 1925 (b)	87	8.90
Bell Tel. Co. of Canada 1st 7s, 1925 (b)	99	7.25
Bell Tel. Co. of Pa. 1st Refund. 7s, 1945 (c)	107	6.45
Chesapeake & Potomac Tel. Co. Va. 1st 5s, 1943 (c)	85	6.25
Home Tel. & Tel. Co. of Spokane 1st 5s, 1936 (c)	84	6.70
Western Tel. & Tel. Co. Coll. Trust 5s, 1932 (b)	88	6.55

*Investors should note that the "asked" price on a bond may vary from 1 to 5 points from the "bid," depending upon the activity of the bond.

Trade Tendencies

Underlying Conditions Continue Improvement

Irregularity Still Prominent But Many Lines Slowly Ending Their Period of Adjustment

SPOT PRICES OF LEADING COMMODITIES

(See Footnote for Grades Used and Unit of Measure)

	1921 High	1921 Low	1921 Last*
Steel (1)	$43.50	$29.00	$29.50
Pig Iron (2)	30.00	18.00	19.50
Copper (3)	0.12¾	0.11	0.13
Petroleum (4)	6.10	2.25	4.00
Coal (5)	3.00	1.80	2.10
Cotton (6)	0.21³/₁₀	0.11	0.19
Wheat (7)	2.04	1.10	1.10
Corn (8)	0.70¼	0.44	0.45
Hogs (9)	0.11½	0.07¾	0.07¾
Steers (10)	0.11½	0.08¼	0.08¾
Coffee (11)	0.09	0.05¾	0.09
Rubber (12)	0.23	0.14	0.16½
Wool (13)	0.48	0.43	0.44
Tobacco (14)	0.25	0.15	0.18
Sugar (15)	0.06¼	0.04⅛	0.04⅛
Sugar (16)	0.08½	0.05¼	0.05¼
Paper (17)	0.06⅛	0.04	0.04

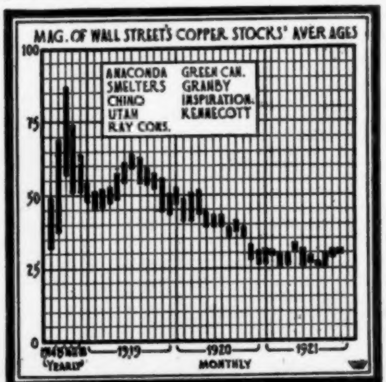
*Nov. 3.

(1) Open Hearth billets, $ per ton; (2) Basic Valley, $ per ton; (3) Electrolytic, c. per pound; (4) Pennsylvania, $ per barrel; (5) Pool No. 11, $ per ton; (6) Spot, New York, c. per pound; (7) No. 2 Red, Chicago, $ per bushel; (8) No. 3 Yellow, Chicago, $ per bushel; (9) Sight, Chicago, $ per bushel; (10) Top, Heavies, Chicago, c. per lb.; (11) Rio, No. 7, Spot, c. per lb.; (12) First Latex crepe, c. per lb.; (13) Ohio, Delaine, unwashed, c. per lb.; (14) Medium Burleigh, Kentucky, — per lb.; (15) Raw, Cubas 96° Full Duty, c. per lb.; (16) Refined, c. per lb.; (17) Newsprint per carload roll, c. per lb.

COPPER

The Market Hesitates Again

While there is no pressure evident in the copper market, a period of quiet has been entered and the market has again become apathetic. Some of the less important dealers are now quoting the



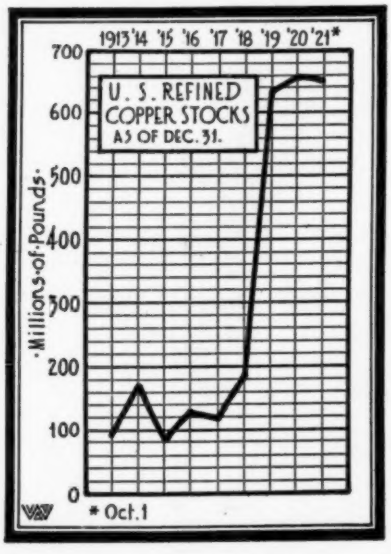
To Nov. 3.

red metal at under 13 cents for prompt shipment but the large producers and agencies still adhere to 13¼ cents for future delivery although they have modified their demands to 13 cents so far as prompt shipment is concerned.

Demand for export and for domestic account is again light. However, so far as domestic business is concerned it is only fair to state that a considerable volume is being withheld pending further developments with regard to freight rates.

The statistical position of copper since last January is slightly improved (see graph). The estimated total of refined copper stocks on hand as of October 1 was 650,000,000 pounds against 659,000,000 pounds January 1. However, since October 1 there has been, except in the past few days, considerable improvement and a large quantity of copper has been sold so that the actual amount of surplus refined copper probably does not amount to more than 600,000,000 pounds by this time.

On the present basis of consumption it would take about a full year to work off



this surplus. However, the rate of consumption should increase more rapidly so that very probably the surplus will be worked off before the end of the twelve month period.

It must be taken into consideration that the public utilities, especially the street railways, telephone and telegraph companies, have maintained a conservative attitude this year with regard to the acquisition of new copper. They cannot maintain such an attitude indefinitely. Further, the brass interests for the first time in a long period are showing a disposition to enter the copper market and replenish their falling stocks. Other domestic consumers, including the automotive industries, building, railway equipment, etc., should enter the market more heavily with the end of Winter.

The copper export situation is still unsatisfactory mainly on account of the exchange situation. There was a decline of approximately 40% in export business in this field as compared with last year. Exports of copper are at a low-water mark. While a marked increase is not looked for at this time owing to political and economic conditions abroad, there should be some improvement within a few months.

While pessimism still continues in the copper market and while the surface facts would seem to warrant such a feeling, it is nevertheless true that the underlying situation is better than that of a year ago and that very slowly the market is getting on a sounder basis. Copper will slowly improve, and prices will advance. The present price of about 13 cents is about 3 cents under the average cost of production and producers cannot afford to sell at a loss indefinitely. Copper to-day is lower than the average price in the five-year period before the war and greatly below the average price in the period 1915-1919. While it is not likely that copper prices will reach for many years the highest seen during the war, a level of

THE TREND

STEEL—Steel Corporation at 50% capacity and industry as a whole, at about the same average. Pig iron production higher. Tin plate and rails moving. Outlook for near future is for rather quiet conditions but the general trend continues upward.

METALS—Copper is quiet again and other metals likewise. Copper prices hold firm. .Surplus, however, is gradually being reduced. Improvement in the metals is inevitable.

MACHINERY—Outlook for industrial machinery, except in exports, not bright. Railroad equipment manufacturers in better position. Locomotive companies in good position as demand for locomotives must increase.

BUILDING—Operations increase particularly in residential building. Lumber and other materials stronger. Outlook favorable.

MOTORS—Further price-cutting and curtailment of operations. Next few months will probably not bring good results.

PAPER—Conditions slowly improving but situation is still spotted. Foreign competition in newsprint a feature.

TOBACCO—Some improvement particularly in the cheap grades. Price-cutting by the chain stores. Conditions irregular and competition is becoming more marked.

WHEAT—Reaches new lows for the year on account of heavy liquidation. Canadian wheat a large factor and weather conditions have favored U. S. crop in certain sections. The fundamental factors are still bearish.

SUMMARY—Further progress has been made in some lines, particularly the basic industries. The price level seems more stabilized. Buying is more active though still on a very conservative basis. While the situation is very "spotted" in certain instances, the underlying factors point toward continued improvement.

between 17 and 20 cents should be seen within the next year, provided the rate of production is not increased greatly and the demand—as expected—makes some forward strikes. From a moderately long-range viewpoint, therefore, the metal may be regarded in a favorable position.

MACHINERY

Uncertain Outlook

Under present conditions, those connected with the machinery and equipment industries are not in a very cheerful frame of mind. This applies more particularly to the industrial machinery manufacturers.

Industrial machinery and machine tools are dull and recovery in these lines is likely to be very slow. It is well to take into consideration the fact that demand for this sort of equipment is dependent on the general manufacturing situation and that while the situation in this regard has improved moderately, it has not been sufficient to stimulate the machine and tool manufacturing industries. As the demand for equipment is secondary to that of consumption of other lines of goods, it is evident that little progress can be made in the industrial equipment industry until the general manufacturing situation is on a much sounder basis than at present.

Furthermore the statistical position of the industry, if such a term can be applied to this industry, is not favorable. The period of depression, after all, has been relatively short and in this time there has not been sufficient wear and tear to greatly depreciate the machinery now in use. Most industries are well supplied with equipment and even with further improvement in their own respective positions are not likely to greatly increase their demand for industrial machinery and tools. As a result of the present situation, there has been a large accumulation of second-hand and rebuilt machines, acting as a drug on the market. Additionally, the Government has become a competitor in a moderate way through the sale of its surplus equipment at what amounts to a considerable concession under the prevailing prices.

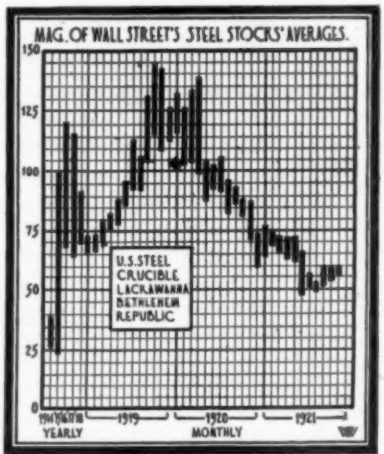
It is apparent, therefore, that this side of the industry is in a relatively unfavorable state and will probably continue so for a considerable period, at least so far as the domestic situation is concerned. With regard to exports, there is reason to believe that some improvement can be looked for in the near future. Mexico offers a fruitful field on account of the rapid economic strides being made in that country: China is going through an industrial revolution which should greatly stimulate the demand for all kinds of machinery, and Latin America, in general, appears to be in a position whereby it should be actively engaged in machinery acquisition within a few months or so. However, the net results of the export trade, while gratifying in themselves, are not likely to greatly offset the results obtained from the unfavorable domestic situation.

The railroad equipment makers, on the other hand, should shortly enter a period of great activity. This applies particularly to manufacturers of locomotives. There is no doubt that the country, as a whole, is sadly undersupplied with locomotives. A few figures may illustrate the situation: during the period 1905-1913, the average annual output of locomotives was 3,500 roundly; in the period 1914-1920 it had fallen to 2,500 annually but in the period 1919-1921 (even assuming an increasing rate of output during the balance of the year over present production) the average rate will not have amounted to more than 800 locomotives manufactured annually. It is apparent from this that locomotive building has undergone a severe slump. The railroads cannot indefinitely refrain from ordering this equipment and with their operating expenses being reduced and with the excellent prospects of the refunding bill being promptly passed, the carriers should be in a position to shortly commence replenishing their equipment.

STEEL

Orders Slowly Increasing

While new orders are not increasing as rapidly as was the case last month, the accumulation of bookings has generally advanced the rate of production. The Steel Corporation is now operating at something like 50% ingot capacity and the other representative companies are in about the same position. Considering that a few months ago the leading interest operated at only 35% capacity, it will be seen that a very considerable improvement has already taken place. The heavier steel products are not doing so well as the light steels, but generally the tendency is toward improvement.



To Nov. 3.

One of the remarkable developments in the market is the exceptional demand for tin-plate. This is one of the most active branches, both for domestic use and export. In fact, the demand for tin-plate is growing in various parts of the world.

The railroads are slightly more active in rail buying. The recent price reduction in heavy rails to $40 a ton has had a good effect and has resulted in new tonnage being booked and in the release of old orders. Probably 125,000 tons rails have been contracted for, either under new business or on the account of old orders being released, since the recent reduction was put into effect.

Pig iron production in October (see graph) rose to 1,233,232, a gain of about 20% over September. The market at present is rather quiet due to a reaction from the over-buying which took place at the time the railroad strike was threatened. Most consumers are supplied sufficiently to take care of their needs during the next few weeks and no important developments are anticipated during this period. During October there was a gain of 14 stacks, added to those in operation. Prices are holding up well. A feature is that there have been some important inquiries for first quarter 1922 delivery.

The steel industry is about to enter the quiet period of the year and an important upswing in business is not likely. However, from various new sources the demand has been increasing and probably will increase so that any loss incurred on account of the seasonal drop in business will be at least partially offset. Very probably the rate of operations during the next few weeks will hold to the present rate.

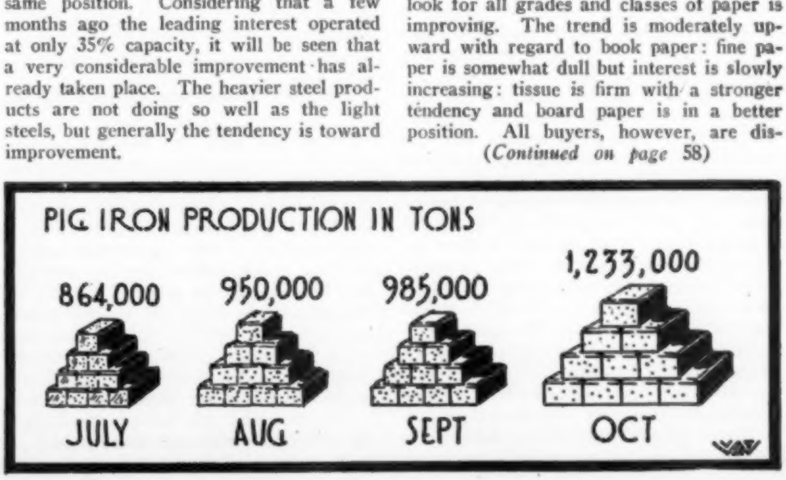
PAPER

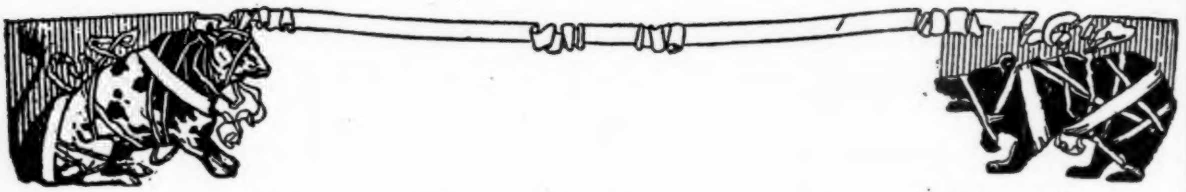
Business Is Improving

At the close of October, conditions in the paper industry, throughout its various ramifications, were better than perhaps at any other time this year. While the situation is still spotted and while there is much room for improvement, conditions are much sounder than those obtaining during the Summer months.

The important markets—New York, Philadelphia, Chicago and Boston—report practically the same conditions. The outlook for all grades and classes of paper is improving. The trend is moderately upward with regard to book paper: fine paper is somewhat dull but interest is slowly increasing: tissue is firm with a stronger tendency and board paper is in a better position. All buyers, however, are dis-

(*Continued on page* 58)





Laws of Gravity Applied to the Stock Market

Article II of the Series "What to Buy and What to Sell"—Why to Buy Below An Investment Basis —Action and Reaction

By VICTOR DE VILLIERS

"WHAT goes up must come down" is the law of gravity, around which Newton made some interesting discoveries. This famous scientist started his theory when he asked himself why the apple falls from the tree.

The study of the market is no less scientific, and the development of a plane of prices, from the bottom to the top is as natural as the growth of the apple tree, from the ground to the topmost branch. Naturally not every branch is at the same level but the general height can be calculated *best by standing some distance away.*

This is the reason why it is best to view the market from a distance, and why it is almost impossible for the average man to be correct when he—so to speak—has his nose on the ground. This is really what is happening when anyone without a very long experience attempts to profit from day to day fluctuations, or by watching the tape all day long.

For the sake of our record, and for easy comparison, reproduced herewith will be found our graph of industrial stock averages, with different markings to those appearing in our last article. Following this graph will be found another. The first mentioned is a true "line" chart showing the high and low prices month by month. The second has no well known name, but it shows the closing prices of a group of industrials week by week. The change in scale and difference in stocks does not alter our examination.

Gravity Applied to Stock Market

Following up the analogy of the apple and tree, it will be observed by referring to the first graph that the market is based on the natural law that to produce you must prepare and plant.

The constructive forces behind the market aim to produce optimism and high prices. It is as well to remark here that the majority of professional operators, big interests, "they" and even the day-to-day traders who make the temporary fluctuations, are in the main *bulls* and not bears. The big names of the powerful operators of the past and present are those of people who have been rampant bulls, enthusiasts if you will, but above all creators of values. This is true from Morgan, Harriman, Gates and Keene, down to Livemore, Doheny, Field and Ryan. The destroyers of values—chronic bears like Addison Cammack—have been the exception.

Hence we find that the market has its foundation at a comparatively low level, and it has always been the practice to regard the levels between 60 and 70 on average as the panic zone, or a zone in which investors are justified in buying for a long pull.

Right now we are in this zone, the rails around 65 and the industrials around 67, and regardless of what might happen in the future, past experience has taught us that a certain group of investment and speculative issues never fails to climb out of this morass.

The law of action and reaction is as true of the market as it is of physics. What goes down (provided it is good) must go up. What goes up must eventually come down. The only flaw in this perfect theory is the knowledge that is lacking—how good or bad any security is and how far enthusiasm or pessimism can run away with reason.

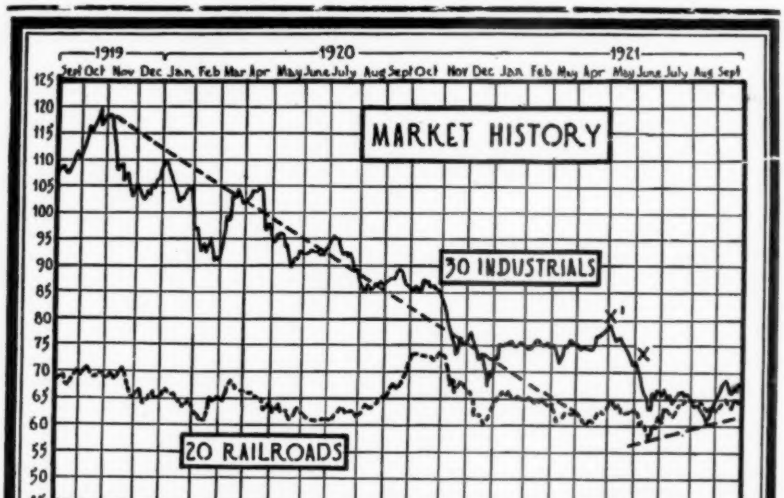
The point the writer wishes to make at this stage is: little or nothing can be accomplished without preparation and patience. Those responsible for bull markets should only be given the credit for the preparation of it, and not for its culmination. It is the public that culminates a big movement either way, and at that stage the original creators usually step aside, and allow the procession to go by.

The tree and the fall of the apple is the natural sequence of nature's laws, and when the apple falls we have seen a complete cycle from preparation, foundation, creation—to fruition and culmination. This is the mental picture we would like our readers to carry for their future guidance, action, and protection.

The second graph herewith is a vivid picture of what happens when the apples fall from the tree—the bigger the crop, the bigger and longer the fall.

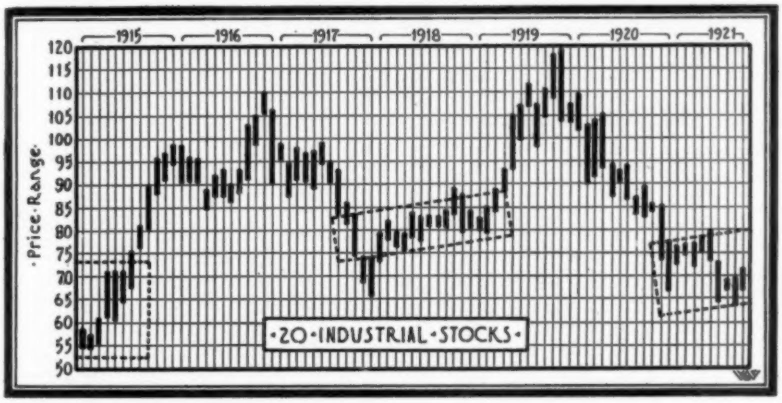
Charts for the Long Pull

Charts such as we reproduce are published both in this magazine and many financial papers. It is not to be expected that the ordinary business man investing for income or profit, nor even the speculator a long distance from the market, should be required or expected to turn himself into a "chart fiend." The most the average man can do is to glance at the daily paper and see "what the market is doing." How he can form any kind of accurate judgment by reading the confusing plus and minus signs is a mystery, and we do not wonder that the average person loses. Customers' accounts in brokerage houses show conservatively that 90% lose their equity—and a little more—eventually. Buying is popular "at the top," and the public takes to the "short side" like a duck to the water at the end of a long bear market. Where the individual buys a good investment issue at about half or a third of its former



level, and is compelled to hold it a few months, or it sells five points lower, said stock is more likely to be considered a good short sale at or near the bottom in zone 60-70.

The writer would like to see the second graph herewith reproduced on a very large scale and given a prominent place in front of the quotation board in the customers' room. In the alternative, before any order is executed, the intended seller should be compelled to examine *a chart* similar to the one herewith, and reminded that he is selling out in the panic zone. We feel sure that 90% of purchases and sales are not executed with a mental picture of the market situation—**where the investor stands, not only towards his security, but with reference to the market itself.**



While the average investor may do himself more harm than good by keeping a number of charts, on the well known principle that "a little knowledge is dangerous," it would help him to know where he is—even if he does not know whether to turn right or left—by keeping, in any form which he can readily understand, a memorandum of tabulation of his position towards the market. Charts and graphs are relatively modern, and that is perhaps why their followers are distinctly in the minority. Like most new things, they have to live down suspicion and prejudice, and a more widely disseminated knowledge of the value and importance will result in more general adoption and reliance.

It will be noted on reference to the second graph that the market had two very distinct bulges in 1919 and 1920, the first in October and November, 1919 (the top of the entire bull market), and the second in March and April, 1920. There was no exact reason for the first named. It represented the post-war, peace, or post-armistice phase of the situation, due to the "reconstruction of Europe" outlook very largely. The second bull movement was largely based upon public expectation of what stock dividends (non taxable) would do to the price of securities.

There were two distinct warnings given during this period—and at least twenty more warnings that were not quite so insistent.

The volume of trading on the New York Stock Exchange and the New York Curb Market was at the highest point since 1914. Without a doubt the public had assumed charge of the movement in October and November, 1919, that was commenced by banking interests, "they" and the pools throughout 1918. With the knowledge that—when the general public runs away with the market, avoid it—no sensible person need complain hereafter (if he reads what this writer has to say) that he bought stocks during a period of abnormal volume in daily sales, and at prices that could not be justified either on the ground of past normal earning power, or average normal prices for the same stock.

An Involved Theory?

This theory may be a little involved for the average reader. Let me explain. Million share days may be the rule one day either when our population has increased 50%, or the number of investors, speculators and traders has grown that large. A simple inquiry among brokers or a little observation will show which way the wind is blowing. If brokers are pleading for an extra day holiday to send out their confirmations—as they did during the bull market—this fact becomes public property. If the financial district is ablaze with electric lights in offices from 5 P.M. to 5 A.M. it spells a-b-n-o-r-m-a-l-i-t-y. It happened in the bull market. "Million-share days" are the exception rather than the rule, and still is a good yardstick by which to measure the degree of risk you assume when you buy into them. "Million-share days" looked small in October and November, 1919.

The rise in March and April, 1920, had an artificial basis when you come to think of it. Stock dividends when not accompanied by a proportionate increase in earning power, ultimately turn out to be "Irish dividends." The companies concerned give away nothing extra if they are not capitalizing a genuine surplus—an earned surplus that really means what it says. In March and April, 1920, certain interests were trying to demonstrate that twice two equalled eight; and judging by the public response the latter really believed it. The parts of an orange are no greater than the whole, and it certainly cannot contain more "pits" than it originally possessed merely because it was broken up, or soaked in water to make it look larger.

The movements in 1919 and 1920 just referred to were created on exaggerated optimism, originally created—perhaps with the best intentions—by market "sponsors"; and it was not their fault that the public decided to look at the outlook through rosy tinted magnifying glasses. The immense volume of sales, ridiculously high prices, the excitement, activity on the exchanges, and the grotesque predictions as to future prices, were all warnings that no conservative investor could disregard.

The second chart herewith presents the picture ex-hysteria, and it will again be noted, as pointed out in our last article, that the series of "steps and stairs" is almost an infallible warning of the real trend for the longer pull. The unprecedented stock-dividend-ex-taxes situation was a very unusual factor, but even this did not fool close observers. The movement, in spite of tremendous activity, failed to get beyond the solid work of distribution accomplished between November, 1919, and January, 1920. It will be seen that stocks fluctuated between 100 and 105 for nearly seven weeks in March and April, 1920. During this time the "volume of sales" had reached a peak, and in spite of it, stocks failed to make any further headway. The narrow movement in the middle of April was significant for this reason. Despite all the optimism and obvious public buying upon a greater scale than at any time since the previous fall, why did not stocks advance further? I have premised that public *buying* was greatest at this point, because the decline from January, 1920, to the end of February, 1920, represented *selling*.

Why was the price of 105 not crossed in April, 1920? The "good" selling exceeded the "weak" buying of the public. Stocks were no longer in "strong hands," and the apple had to fall from the November, 1919, tree by the law of gravity and the dictum of the stock market. The dictum of the stock market is as immutable as the laws of the Medes and Persians and the March-April, 1920, rally proved it.

There may be readers who will say: "This writer is wise—*after the event*," which would be a pardonable comment, if the chart were not available, and if we did not have other clear proof of our having acted precisely in accordance with the theories and recommendations here expressed.

In justice to the critics, it must be conceded there is one place in the entire chart where anyone would be justified—temporarily at any rate—in hesitating. This was at the point XI, which might have been interpreted as a new upward move after a long preparation between January and April, 1921. However, this doubt should have been dispelled in May, 1921, when it was evident the market was unable to hold rallies, strengthened by the knowledge that business here was not buoyant, and the European situation menacing.

A rather different situation is observed since June, 1921. The panic and bargain zone 60 to 70 is reached, the dullness of the market is notorious (months of 500,000 to 700,000 share days), dividends passed, and prices are low. More significant even than this is the fact, that the soundest kind of investment issues are

(*Continued on page 72*)

New York Stock Exchange

	Pre-War Period 1909-13		War Period 1914-18		Post-War Period 1919-20		1921		Last Sale	Div'd $ per
RAILS:	High	Low	High	Low	High	Low	High	Low	Nov. 3	Share
Atchison	125⅝	90¼	111⅛	75	104	76	87¼	76¼	85¾	6
Do. Pfd.	106⅜	96	102⅛	75	89	72	81¼	75½	80¾	5
Atlantic Coast Line	148⅛	102⅛	126	79⅞	107	82	89¼	77	84½	7
Baltimore & Ohio	122¼	90⅝	96	38¼	55¼	27⅝	42⅝	30⅝	37½	..
Do. Pfd.	96	77¼	80	48¼	59½	33½	54	47	51	4
Canadian Pacific	283	165	220⅜	126	170⅞	109⅝	119⅛	101	114½	10
Chesapeake & Ohio	92	51⅛	71	35⅝	70⅜	47	65½	46	55½	..
Chicago Great Western	36⅞	1⅛	17⅛	6	14⅛	6⅝	9⅛	6⅝	7	..
Do. Pfd.	64⅛	28	47⅛	17⅛	33⅜	15⅛	20⅞	14	17	..
C. M. & St. Paul	165⅛	96⅜	107⅛	35	52⅜	21	31	22	23⅜	..
Do. Pfd.	181	130½	148	62½	76	36⅜	46⅝	33	37½	..
Chicago & Northwestern	198½	123	136⅞	85	105	60	71	60½	67½	5
Chicago R. I. & Pacific	..	..	45⅝	16	41	21½	35	22⅝	32⅞	..
Do. 7% Pfd.	..	..	94⅝	44	84⅝	64	80	68⅜	79⅝	7
Do. 6% Pfd.	..	..	80	35⅜	73	54	68¼	56½	67⅛	6
Cleveland C. C. & St. L.	92¼	34⅞	62⅝	21	61	31⅝	48	32	45	..
Delaware & Hudson	200	147½	159½	87	116	83¼	104½	90	103½	9
Delaware Lack. & W.	340	192½	242	160	260½	165	249	93	107	6
Erie	61⅛	33½	59½	18⅜	21⅝	9⅛	15¼	11⅜	12⅛	..
Do. 1st Pfd.	49⅞	26¼	54⅝	15⅛	33	16⅛	22⅜	16½	17⅜	..
Do. 2nd Pfd.	39½	19½	45⅝	13⅛	23⅜	12	15⅞	11½	12⅛	..
Great Northern Pfd.	157⅞	115⅛	134⅜	79¼	100⅝	65⅝	79⅛	60	73¼	7
Illinois Central	162⅛	103⅜	115	85⅝	104	80⅞	98	85½	97⅞	7
Kansas City Southern	50¼	21⅝	35⅛	13⅛	27¼	13	23⅞	18½	24⅛	..
Do. Pfd.	75½	56	65½	40	57	40	52	45½	‡49½	4
Lehigh Valley	121⅛	62½	87½	50⅝	60⅜	39⅜	59⅞	47½	55¼	3½
Louisville & Nashville	170	121	141⅞	103	122⅜	94	116	97	‡106	7
Minn. & St. Louis	*65	*12	35	6⅝	24½	8⅛	14⅜	6¼	7⅛	..
Mo. Kansas & Texas	51⅛	17⅞	24	3⅛	16⅝	2¼	3	⅜	‡1⅜	..
Do. Pfd.	78⅛	46	60	6⅛	25½	3⅜	5⅜	2½	‡2½	..
Mo. Pacific	*77½	*21½	38½	19⅞	38⅞	11½	23¼	10	18⅜	..
Do. Pfd.	..	..	64⅞	37½	58⅜	33⅜	48⅜	33½	43½	..
N. Y. Central	147⅝	90⅝	114¼	62½	84¼	64¼	74½	64½	72½	5
N. Y. Chicago & St. Louis	109⅞	90	90⅜	55	65	23⅜	61½	39	‡55	5
N. Y. N. H. & Hartford	174⅜	65⅝	89	21½	40⅞	15⅛	23½	12⅞	13⅜	..
N. Y. Ont. & W.	55⅝	25½	35	17	27⅜	16	23¼	16	19½	2
Norfolk & Western	119¼	84¼	147⅛	92⅝	112½	84¼	104⅞	88⅜	‡95	7
Northern Pacific	159⅛	101⅜	118⅞	75	99⅞	66⅝	88¼	61¼	75	7
Pennsylvania	75⅝	53	61½	40¼	48½	37⅞	41⅜	32¼	35½	2
Pere Marquette	*36½	*15	38½	9½	33½	12½	23⅞	15⅜	18⅛	..
Pitts. & W. Va.	..	..	40⅜	17⅜	44⅜	21½	32	23	24	..
Reading	89⅝	59	115¼	60½	103	64⅜	89¼	60⅞	69⅝	4
Do. 1st Pfd.	46⅜	41¼	46	34	61	32⅞	55	36½	43½	2
Do. 2nd Pfd.	58⅜	42	52	33⅜	65½	33¼	57⅜	38½	‡42	2
St. Louis-San Francisco	*74	*13	50½	21	3½⅞	10⅜	25⅝	19⅞	22⅜	..
St. Louis Southwestern	40⅜	18⅛	32¼	11	40	10⅞	30½	19½	23	..
Do. Pfd.	82⅜	47⅞	65½	28	49⅜	20⅛	41	28	‡32½	..
Southern Pacific	139⅝	83	110	75⅜	118⅛	88	101	67½	78⅝	6
Southern Ry.	34	18	36⅜	12½	33½	18	24⅞	17⅞	19½	..
Do. Pfd.	86⅞	43	85¼	42	72½	50	60	42	‡43½	..
Texas Pacific	40¼	10¼	29½	6⅛	70¼	14	27½	16⅛	22⅛	..
Union Pacific	219	137⅝	164⅜	101¼	138⅛	110	123⅜	111	121	10
Do. Pfd.	118⅛	79⅜	86	69	74⅜	61¼	68	62¼	67	4
Wabash	*27⅝	*2	17⅛	7	13⅜	7	9	7	7	..
Do. Pfd. A	*61⅜	*6⅛	60½	30⅝	38	17	24½	18	20½	..
Do. Pfd. B	..	..	32⅞	18	25½	12⅛	15½	12⅝	13⅛	..
Western Maryland	*50	*40	23	9¼	15⅝	8⅝	11½	8½	8⅞	..
Western Pacific	..	..	25¼	11	40	17	30⅞	17⅝	20⅝	..
Do. Pfd.	..	..	64	35	73	52¼	70½	58	58¼	6
Wheeling & Lake Erie	*12⅞	*2½	27⅝	8	18¼	7⅜	11⅛	7½	‡7⅞	..
INDUSTRIALS:										
Allied Chem.	..	..	..	..	62⅝	43¼	55½	34	45½	4
Do. Pfd.	..	..	..	..	92½	84⅞	93⅞	83	91	7
Allis Chalmers	10	7⅝	49½	6	53⅜	26½	39¼	28¼	33½	4
Do. Pfd.	43	40	92	32½	97	67¼	83	67½	77	7
Am. Agr. Chem.	63⅝	33½	106	47⅞	113⅜	51	65½	26½	30⅞	..
Do. Pfd.	105	90	103½	89½	103	79	84	51	56	..
Am. Beet Sugar	77	19⅜	108½	19	103⅜	32⅝	51	24½	‡27⅝	..
Am. Bosch Mag.	..	..	..	..	143⅞	45¼	65½	29¼	33¼	..
Am. Can.	47⅝	6⅞	68½	19¼	68⅝	21⅜	32⅜	23½	28¼	..
Do. Pfd.	129½	62	115⅝	80	107⅝	73⅜	88	76⅜	85½	7
Am. Car & Fdy.	76½	36½	98	40	148⅜	84½	133	115¼	131	12
Do. Pfd.	124⅜	107½	119¼	100	119	105⅜	114	108	‡112½	7
Am. Cotton Oil	79¼	33⅝	64	21	67⅞	15¼	23½	15⅞	‡17½	..
Do. Pfd.	107⅛	91	102¼	78	98	59½	67	35½	‡39½	..
Am. Drug Syn.	..	..	..	..	15⅛	6⅝	8⅜	4⅛	‡5⅝	..
Am. Hide & L.	10	3	22½	2½	43⅛	5	13⅜	8	10⅞	..
Do. Pfd.	51⅞	15⅛	94⅞	10	142⅜	35	57⅜	40½	53½	..
Am. Ice	..	..	49	8⅞	76½	37	66½	42	66⅝	6
Am. International	..	..	62⅜	12	132¼	30⅛	58⅜	21¼	36	..
Am. Linseed	20	6⅞	47⅝	20	95	42	62½	17	24⅜	..
Am. Loco.	74⅜	19	98¼	46⅝	117½	58	93¼	73½	91½	6
Do. Pfd.	122	75	109	93	109⅜	96½	107¼	97¼	‡106	7
Am. Safety Razor	..	..	..	..	22	6⅛	10	3½	4⅜	..
Am. Ship & Com.	..	..	..	..	47½	7⅝	14	4⅛	6	..
Am. Smelt. & Ref.	105⅛	56⅝	123⅜	50¼	89⅜	29¼	44⅜	29⅝	39⅜	..
Do. Pfd.	116⅜	98¼	118⅛	97	109⅝	64½	88	63¼	77½	7
Am. Steel Fdys.	74½	24⅛	95	44	50	26	31⅜	18	25¼	3
Do. Pfd.	..	..	..	..	96½	79½	91	78	83⅞	7
Am. Sugar	136⅜	99⅞	126⅜	89⅛	148⅜	82½	96	47⅝	53⅞	..
Do. Pfd.	133½	110	123½	106	119	97⅞	107¼	67½	80	7
Am. Sumatra Tob.	..	..	145⅜	15	120½	65	88	33¾	35⅜	..
Do. Pfd.	..	..	103	75	105	79	91	70¼	‡65	7
Am. Tel. & Tel.	153⅛	101	134⅛	90⅝	108⅝	92¼	108⅜	95⅜	108⅜	9
Am. Tobacco	*530	200	256	123	314½	104½	139⅜	111½	125⅜	12
Do. B	..	..	..	..	210	100⅛	127⅜	110	123	12
Am. Woolen	40⅝	15	60⅞	12	169½	55½	82¼	57	77	7
Do. Pfd.	107⅜	74	102	72½	110⅜	88½	101	93	101	7
Anaconda	54⅝	27⅛	105⅜	24¼	77⅞	30	43½	31⅜	42⅜	..
At. Gulf & W. I.	13	5	147⅝	4⅛	192⅜	71½	76	18	29⅞	..
Do. Pfd.	32	10	73⅜	9⅞	76½	42	44½	15⅜	23	..
Baldwin Loco.	60⅜	36½	154⅝	26⅝	156⅛	64⅞	94½	62½	91⅜	7
Do. Pfd.	107⅛	100¼	114	90	111⅞	92	102¼	95	‡97½	7
Bethle. Steel B.	*51⅝	*18⅜	155⅛	59⅜	112	48⅞	65	41½	56	5
Do. 7% Pfd.	80	47	186	68	108	90	93¼	87	‡90¼	7
Do. 8% Pfd.	..	..	110¼	92½	116	99¼	107½	93⅜	103¼	8
Calif. Packing	..	..	50	30	87½	48¼	70½	53⅜	70¼	6
Calif. Petro.	72½	16	42⅜	8	56⅞	15⅜	49⅜	25	44½	..

Active Stocks' Price Range

	Pre-War Period 1909-13 High	Pre-War Period 1909-13 Low	War Period 1914-18 High	War Period 1914-18 Low	Post-War Period 1919-20 High	Post-War Period 1919-20 Low	1921 High	1921 Low	Last Sale Nov. 3	Div'd $ per Share
INDUSTRIALS—Continued:										
Calif. Petro. Pfd.	95½	45	81	29½	86⅝	63	80	68¼	80	7
Central Leather	51⅝	16¼	123	25⅞	116½	30½	43¼	22½	29½	..
Do. Pfd.	111	88	117½	94⅞	114	80½	96	57⅛	62½	..
Cerro de Pasco	..	..	55	25	67½	24¼	32½	23	30⅝	..
Chandler Mot.	..	..	109⅞	56	141½	50⅝	86	38¼	44	6
Chile Copper	..	..	29¼	11¼	29½	7⅛	12⅝	9	12¼	..
Chino Copper	50⅝	6	74	31⅝	50⅞	16⅝	27¼	19¼	26	..
Coca Cola	..	..	..	..	43⅝	18	40⅝	19	29½	4
Colum. Gas & E.	..	..	54¼	14¼	69	39¼	64	52	62⅝	6
Columbia Graph.	..	..	*166	*97	75½	9	12⅝	2⅝	3⅝	..
Consol. Cigar	..	..	..	..	80	51½	61	21½	‡24	..
Consol. Gas	165¼	114¼	150¼	112½	106⅝	71⅝	92½	77½	92	7
Corn Prod.	20½	7⅝	50⅝	7	105¼	46	86½	59	85⅞	6
Do. Pfd.	93½	61	113¼	88¼	100⅞	97	107½	96	107½	7
Crucible Steel	19⅝	6½	109⅞	12¼	278½	52½	107½	49	64½	4
Cuba Cane Sugar	..	..	76⅝	24⅝	59⅝	16½	26	5⅝	8½	..
Cuban Am. Sugar	*58	*33	*279	*38	*606	21½	33½	10⅞	15	..
Fisk Rubber	..	..	..	..	55	10	19⅝	8⅝	10½	..
Freeport Tex.	..	..	70½	25⅝	64⅝	12½	20½	9½	14	..
Gen'l Asphalt	42⅞	15½	39⅝	14¼	160	32½	78⅝	39½	63¼	..
Gen'l Electric	188½	129⅝	187¼	118	176	116½	138⅝	109½	134⅞	8
Gen'l Motors	*51⅝	*25	*850	*74½	42	12⅝	16¼	9⅝	10	1
Do. 6% Pfd.	..	..	99½	72⅝	95	64½	72	63	‡67½	6
Do. 6% Deb.	..	..	..	..	94¾	58⅝	70⅝	60	65	6
Do. 7% Deb.	..	..	..	..	94	69	82	69	76	7
Goodrich	86¼	15½	80½	19⅝	93⅝	27	44½	26⅝	30⅞	..
Do. Pfd.	100⅞	73⅝	116⅝	79⅞	109½	70	85	62½	77	7
Gt. Nor. Ore	88½	25½	50⅝	22½	52¾	24⅞	22½	25⅝	31⅞	4
Haskell-Barker	..	..	64⅛	27⅛	78⅛	40	73½	50½	71½	4
Houston Oil	25⅛	8⅛	86	10	116½	55¼	86	40½	77	..
Hupp Motors	..	..	11⅝	2½	23¼	4⅝	16⅜	10½	11	1
Inspiration	21⅝	13⅝	74⅝	14½	68⅞	28	37⅝	29⅝	36	..
Inter. Mer. Mar	9	2½	50⅞	⅝	67⅝	10¼	17½	7⅝	11	..
Do. Pfd.	27⅝	12½	125⅝	8	128½	44	68⅝	36	50½	6
Inter. Nickel	*227¼	*135	57½	24½	38⅞	11¼	17	11¼	13⅝	..
Inter. Paper	19⅝	6⅛	75½	9½	91⅝	30½	73⅝	38⅝	58⅝	..
Invincible Oil	..	..	..	..	47¼	19	26	5⅛	10⅝	..
Island Oil	..	..	..	..	7⅛	4	4⅜	2	3⅛	..
Kelly Springfield	..	..	85¼	36⅝	164	25¼	54⅞	32½	40	..
Do. Pfd.	..	..	101	72	110¼	75	94	70½	86	8
Kennecott	..	..	64¼	25	43	14⅝	23¼	16	23	..
Keystone Tire	..	..	46½	11	126⅝	13½	17⅞	8¼	9½	..
Lackawanna Steel	55½	28	107	26½	107⅞	45	58½	32	42⅞	..
Loews, Inc.	..	..	..	..	38⅝	14½	21½	10	14⅝	..
Loft, Inc.	..	..	..	..	28	9⅝	12⅝	7⅞	9⅝	1
Mexican Pet.	90½	41⅝	129⅝	46½	264	148	167½	84½	107½	12
Miami Copper	30½	12⅝	49⅝	16½	32⅝	14½	24	15⅝	22⅝	2
Middle States Oil	..	..	..	..	71⅝	10¼	15⅝	10	14	1.20
Midvale Steel	..	..	98½	39¼	62¼	28⅝	33⅛	22	24⅝	..
Nat'l Lead	94	42⅛	74⅝	44	94½	63½	81	67⅞	‡75	6
Nevada Copper	30	13	34¼	10⅝	21⅞	8	13¼	9	12⅞	..
N. Y. Air Brake	98	45	186	55⅞	145⅝	66	89	47½	‡55	5
N. Y. Dock	40¼	8	27	9¼	70⅝	16¼	39	20⅝	‡28	2½
North American	*87⅞	*60	*81	*38⅞	*67	*67	41⅝	22¼	40½	3
Do. Pfd.	..	..	..	..	..	..	37⅝	31⅞	37¼	3
Pacific Oil	..	..	..	..	41⅞	25	47½	27⅛	45⅜	1½
Pan Amer. Pet.	..	..	70⅝	35	140½	67	79⅝	38½	46⅞	6
Do. B	..	..	..	..	111⅝	64½	71⅜	34½	44	6
Philadelphia Co.	59⅝	37	48⅞	21½	43	30	35½	26½	30½	3
Phillips Pet.	..	..	..	..	44½	26⅝	31½	16	28½	..
Pierce Arrow	..	..	65	25	99	15	42¼	9¼	14⅝	..
Do. Pfd.	..	..	109	88	111	59	88	21	34⅞	..
Pittsburgh Coal	*29⅝	*10	58⅝	37½	74⅝	45	64⅞	52	‡59	5
Pressed Steel Car	56	18½	88¼	17¼	113⅝	59	96	48	59⅞	..
Do. Pfd.	112	88½	109½	69	106	90¼	104	80	‡85	7
Punta Aleg. Sug.	..	..	51	29	120	40	51½	24⅝	29½	..
Pure Oil	..	..	143⅞	31⅞	61⅞	29⅞	37	21½	36½	2
Ry. Steel Spg.	54½	22¼	78½	19	107½	68½	90½	67	‡83⅞	8
Do. Pfd.	111⅝	90¼	105½	75	112	92½	109	98	‡102	7
Ray Cons. Cop.	27½	7½	37	15	27⅛	10	15	11	13⅝	..
Replogle Steel	..	..	..	..	93½	30	39½	18	‡20½	..
Republic I. & S.	49½	15⅝	96	18	145	55¼	73¼	41½	50⅝	..
Do. Pfd.	111¼	64½	112⅝	72	106⅝	84	96¼	75⅝	82	7
Republic Motors	..	..	77	31	74⅛	16¼	24½	6½	6½	..
Royal Dutch N. Y.	..	..	86	56	123⅝	49½	69⅝	40½	48⅝	5.20
Shell T. & T.	..	..	..	..	90½	33⅛	49	30⅞	36	.74
Sinclair Con. Oil	..	..	67⅛	25¼	64⅛	20	28⅝	16⅞	23⅛	..
Sloss Shef. Steel	94⅝	28	93¼	19½	89	43	56	32½	38	..
Stand. Oil N. J.	*448	*322	*800	*355	212	142½	167½	124½	152¼	5
Do. Pfd.	..	..	..	..	113⅝	100¼	110¼	105¼	110¼	7
Stromberg Carb.	..	..	45¼	21	118¼	22½	46	25¼	‡30⅛	..
Studebaker	49½	15⅝	195	20	151	37⅝	93¼	43⅝	75	7
Do. Pfd.	98½	64½	119½	70	104½	76	97½	83	97	7
Superior Steel	..	..	96	30¼	60	32	43	26	‡20	..
Tenn. Cop. & Chem.	..	..	21	11	17⅛	6¼	10⅝	6⅝	8½	..
Texas Co.	144	74½	249	112	57⅝	40	45	29	43⅛	3
Tex. Pac. Coal & O.	..	..	..	..	195	22	36⅝	15⅝	26⅛	1
Tobacco Prod.	145	100	82⅝	25	115	46	72	45	60⅝	6
Transc'al O.	..	..	..	..	62⅝	5⅝	13	6	9	..
United Fruit	208½	126½	173	105	224⅞	157	207	95⅝	117¼	8
Un. Retail Stores	..	..	..	..	119¼	45½	62⅛	46⅞	50¼	6
U. S. Food Prod.	41⅝	9⅝	64⅝	5½	91⅝	15	27¼	8½	12	..
U. S. Ind. Alco.	57⅛	24	171½	15	167	56⅞	74½	42⅝	44⅞	4
U. S. Rubber	69½	27	80½	44	143⅝	53	79⅝	40½	47⅞	..
Do. Pfd.	123½	98	115¼	91	119⅝	95½	102⅞	74	85½	8
U. S. Smelt. & R.	59	30⅝	81½	20	78⅛	29½	35½	26	32⅝	..
U. S. Steel	94⅞	41¼	136⅝	38	115¼	76¼	86½	70¼	81½	5
Do. Pfd.	131	102½	123	102	117¼	104¼	112	105	110⅝	7
Utah Copper	67½	38	130	48½	97½	44⅛	59½	41½	56	2
Vanadium	..	..	..	..	97	28½	41	25⅛	32½	..
Va.-Caro. Ch.	70⅝	22	60½	15	92½	24⅝	42½	20⅝	27⅛	..
Do. Pfd.	129¼	93	114½	80	115⅞	88⅝	102⅝	57⅝	73	..
Western Union	86¼	56	105½	53⅝	92½	80½	94	76	‡84½	7
Westinghouse Mfg.	45	24⅝	74⅞	32	59⅞	40	49⅞	38⅞	45⅞	4
White Motors	..	..	60	30	86	30½	44	29½	36	4
Willys Overl'd	*75	*50	*325	15	40¼	5½	10½	5¼	6	..
Wilson & Co.	..	..	84¼	42	104⅞	34⅞	47	30⅞	‡32½	..
Woolworth	117⅞	76⅛	151	81½	136⅝	100	126	105	125⅝	8

*Old stock. ‡Bid price given where no sales made.

ANSWERS TO INQUIRIES

(*Continued from page 32*)

CANADIAN PACIFIC

How Earnings Are Applied

On page 808 of the October 1 number there is a table of railroad earnings. Does the last column to the right indicate the earnings after interest on bonds and preferred dividends have been paid?

Has the Canadian Pacific issued a stock dividend in the last several years or taken any other important action to bring the market price down so far from its former high level? Is it likely that assuming prosperity comes back to general business in a year or two, that C. P. R. will go back to 150 or better? Do they still own their hotels and farm lands?

In the table of railroad earnings, we first of all apply all the net operating profits towards fixed charges and then deduct what is necessary to pay any dividends on its preferred stocks and if there is a balance remaining for common stocks, we report this balance. For example, in the case of Atchison, reported as earning $17.85 a share on its common, this means that fixed charges had been earned 100%, preferred dividend 100% with the balance left over as stated. In the case of fixed charges falling below 100%, it means that the net operating profits was insufficient to meet these charges, leaving therefore nothing on the common stock. Whenever a balance is shown for the common stock, it means that fixed charges as well as preferred dividend has been earned. This has nothing to do with actual payments.

Canadian Pacific has not issued a stock dividend that would alter the relative price of the stock. The stock has had a steady decline since 1915 due largely to the liquidation of large blocks of this stock held throughout Europe. In addition to this you have the factor of a very high ratio of expense and taxes since 1915 and a readjustment of its price to be more in line with the return on other good investments. Stocks like Union Pacific, Atchison and a number of high grade preferred stocks had a similar fall although perhaps not quite so radical. Under normal conditions, Canadian Pacific could reasonably have a very big advance although we are not prepared to prophesy a price of 150 or better. This price is not improbable, however. So far as we know the company still owns the bulk of its hotels and farm lands although its policy has been to sell a portion of the latter each year. Part of its dividend really comes out of hotel operation and sale of lands.

UNITED RETAIL CANDY

A Curb Stock With Some Promise

I purchased United Retail Candy when it first came out on the curb at much higher prices and also subscribed, as I was a stockholder of the old United Cigar Stores. The stock, as you know, has a big decline, and in view of the high hopes held out by the United Cigar Stores people when this company was formed, it is rather strange that the stock has persistently sold at between 5 and 6 in many months. What is the company doing at present and can you give me some further details?—S. M. K.

United Retail Candy Stores, Inc. for the year 1920 reported a deficit of $333,729. In this connection however, the fact should be taken into consideration that the first store was open on May 8th and that the company could hardly be expected to make much of a showing the first year. About twenty-five stores are now being operated. The company is in strong financial condition with working capital of about $5,000,000. The working capital alone is equal to about $6.00 a share on the stock. At present prices therefore, we believe the stock a fairly good speculative possibility, and suggest that you hold it for somewhat higher prices. Stockholders of Sept. 9th, 1921, authorized the purchase of stock by the company at $5.00 a share (and cancellation of 100,000 shares of the stock) in the open market.

AMERICAN TOBACCO COMPANY

Should an Employee Buy Some Stock?

I have been in the employ of the American Tobacco Co. for some time and have accumulated sufficient to buy outright five shares of this company's stock. Do you think it would be a good move to do this and do you think well of American Tobacco?—J. R.

American Tobacco Company is the logical leader in the entire field, and as an employee of the company you are doubtless aware of its excellent record, its strong earning power through good and bad times, and the fact that it occasionally runs into a period of depression.

We believe you could make no mistake in purchasing five shares of the common stock as a permanent investment. It was formerly worth above 150, and whether or not it ever reaches this price again, we believe that it will always be a good investment and a sound dividend-paying issue.

GREAT ATLANTIC TEA

In Strong Position

Do you consider Great Atlantic & Pacific Tea Co., a good investment? C. R. Z.

Great Atlantic and Pacific Tea Co. showed net earnings of $7,475,254 last year and a surplus of around $5,000,000, which compares with around $3,000,000 in 1918. In 1919 earnings were not available. The company is in a very strong position with a surplus of around $11,000,000 and we believe the common stock of this company to have a very good speculative rating.

INACTIVE SECURITIES

Position of West Virginia Utility 6s

Are you in a position to give opinions on inactive or unlisted securities where research is necessary. I am holding a West Virginia utility 6% and if it is not contrary to your rules, would like you to give me a rating on its bonds and stocks.—S. A. W.

West Virginia Utility Company 6% Refunding and Extension Mortgage Gold Bonds, series "A," due 1935, cannot be regarded as a high-class bond, but there is fair security. For the year ended December 31, 1920, the company earned the interest charges on this bond issue about two times. The 7% and preferred stock is a decidedly speculative issue, but with fairly good possibilities in view of the fact that public utility companies generally are on the mend due to the gradual reduction in the cost of operation. The company's financial condition is fairly good, working capital amounting to about $50,000. The common stock is very speculative.

PAN AMERICAN PETROLEUM

Is This an Investment or Speculation

The situation regarding Pan American & Mexican Petroleum has been so confused both by the various rumors and the ups and downs in Mexican Petroleum that I am at a loss to know what attitude to take toward Pan American B that I hold. I should like to know in the first place whether I am to regard my holding as a speculation rather than as an investment. Do you think that Mexican Petroleum will continue to pay its present high dividend and do you regard its earnings as reasonably assured in the next few years.

I would also like you to recommend me a fairly good bond that would yield about 7% with principal and interest reasonably safe.—H. P. E.

Pan American "B" stock we believe should be regarded more in the nature of a speculation than an investment. At the present time the company is earning its $6 dividend with a fairly comfortable margin to spare. On the other hand, there is a lot of doubt expressed as to how long the Mexican oil fields of Mexican Petroleum Co. will hold out and also how long it will be able to maintain its present large production from that country. It is our personal opinion that Mexican Petroleum Co. with huge oil lands reserved will be able to get good production from Mexico for many years to come, and at around $40 a share, we regard the Pan American "B" stock as having rather attractive speculative possibilities, but there is a certain amount of risk involved. If the stock should decline much from present levels, it would be a pretty good indication that the $6 dividend will not be maintained. There are some bonds on which you can get a return of over 7% on your money with little or no risk attached. A suggestion is International Mercantile Marine 6s, selling around 83 and yielding 7.6%.

GERMAN SECURITIES

Not Suitable for Woman's Funds

I am a widow dependent somewhat upon a moderate earning power, but largely upon the income from fairly good investments, and the possibility of profits that I might make out of my future investments. I have been told that large possibilities exist in a purchase of German marks, and particularly in some of the German bonds and stocks mentioned in the attached circular which I have received from a broker.

With the mark selling at about 1 cent each against a par value of around 24 cents, do you not think that there is every chance for a very large profit eventually by buying either German bonds or German stocks? M. N.

We have consistently taken the attitude that for anyone to gamble in German securities is merely to take a chance.

As a woman investor, we are very strongly opposed to your going in for any such enterprise and we have consistently held the view both in our correspondence and our MAGAZINE that anybody who speculates in marks, German bonds or German securities, must do so at their entire risk with a full knowledge that they are merely gambling.

You will find a further article on this subject in our MAGAZINE on page 824, of the Oct. 15th issue.

There are any number of sound American securities selling at attractive levels, including bonds mentioned in our Bond Buyer's Guide in each issue that we believe you should favor rather than attempt to follow the fluctuations or fortunes of German industrials and bonds.

ANSWERS TO INQUIRIES

(Continued)

SIX BONDS

3 Rails—3 Industrials

Please name three railroad and three industrial bonds that would yield on the average about 6.75%, of long term, reasonably well secured and with prospects to sell higher eventually. I have about $6,000 to invest but would like to purchase some bonds that are selling at a substantial discount from their par value as I could use the difference between par and the present price to advantage.—C. N. A.

The following railroad and industrial bonds return a liberal yield on your investment and while they are not known as gilt-edge issues, they can be regarded as reasonably safe investments:—

	Yield.
Chesapeake & Ohio conv. 5s due 1946	6.35
St. Louis San Francisco prior lien 4s, due 1960	6.95
Baltimore & Ohio first mortgage 4s, due 1948	6.25
Inter. Mercantile Marine 5s, due 1941	7.55
Lackawanna Steel 5s, due 1950	6.95
Wilson & Co. first 6s, due 1941	6.75

In spite of the fact that the yield on the Marine bonds looks rather high, they have a very big equity behind them and we regard them as a decidedly attractive bond.

CHANDLER MOTOR CO.

Some Doubt About Div.

I bought Chandler Motor Stock early this Spring. Would you advise me to sell now and take a loss, or hold my stock for about six months, with a view of selling out about next Spring and taking a chance of getting at that time a better price than by selling now. W. J. C.

Chandler Motor Car Company for the six months ended June 30, 1921, is reported to have shipped only 3,450 cars as against 15,552 cars in the corresponding period of 1920. This is a big drop and forecasts a poor earning report for the year 1921. The price cut in its cars will probably prevent the company from making very large profits in the next six months. We do not believe that the company will be able to maintain its $6 dividend and believe it would be wise for you to take advantage of the bulge in this stock that has recently taken place, to sell out and switch into:

Computing-Tabulating-Recording common stock, selling around 35 and paying $4 per share per annum. We believe this has somewhat better possibilities with earnings far in excess of dividend requirements.

By next Spring Computing-Tabulating might still be paying $4 a share and selling much higher.

MEXICAN PETROLEUM PREFERRED

Is It Still an Investment?

I am holding some Mexican Petroleum preferred at 98, and the decline in this stock is disturbing. It is strongly rumored that this company will not be able to pay its dividends not even on its preferred stock, as most of its wells have turned to salt water. What is the outlook? M. S.

In spite of all the rumors to the effect that the Mexican oil fields are going to be all through within a short time, we are of the opinion that Mexican Petroleum preferred stock is a business man's investment of merit. The company has enormous reserved areas in Mexico for future development and a large part of this territory is in sections that have not yet been invaded by salt water. For the first six months the current year, the company earned over $17 a share on the common stock. Another point to remember regarding Mexican Petroleum is that although portions of the Mexican oil fields that turned into salt water is not necessarily bearish because this means a lower output from the Mexican fields and an increase in the price of Mexican crude oil. Therefore, the companies which are still able to produce will get more money for their products.

SEPTEMBER RAIL EARNINGS

(Continued from page 25)

duction for at least six months, is bosh and tommy rot. The leaders realized that their untimely balking at what the economic conditions of the day made necessary would not be tolerated by either the public or the Government. Public sentiment was all with the carriers, and justifiably so. The early settlement of the entire question now seems almost assured. The roads are already taking steps to reduce freight rates and will not be long in presenting the Labor Board with a request for another cut in wages, and unless we are very much mistaken it will not be six months before the Board considers this request.

The market for railroad securities will undoubtedly begin discounting the removal of this chief obstacle to railroad prosperity before very long. In our opinion, the rails can be bought at this time with more confidence than at any time within the last two years.

POPULAR POTENTIALITIES

(Continued from page 37)

man occupying this position should be practically as capable as the President himself. He always has the possibility of occupying the same position. It is quite apparent to every one at this time what the present position and duties of the Vice-President are, and the present President is to be commended for abolishing the old precedent and having the Vice-President a participant in all cabinet meetings, but the President's cabinet has always been and probably always will be a political cabinet. Why not create a cabinet for the Vice-President and call it a business cabinet, with nine members, every one of whom shall be a man appointed by the Vice-President on business qualifications alone and well versed in the respective merits and learnings of his individual vocation? It could be made obligatory where men of outstanding prominence and ability could be drafted to devote a certain part of their time, payable on a per diem and expense basis, to serve on that cabinet for solving the business problems of the coun-

try in conjunction with the President's cabinet. This experiment could only be successful if it was worked on the theory of patriotism alone.

EARNINGS ON UP GRADE
(*Continued from page* 45)

group should be separated from the rest of the list, and the individual securities composing it analyzed from the point of view of comparative merit.

After the manner in which our own Index has been grouped, it will be seen that the traction companies' bonds offer the greatest return on the investment at current prices. Investigation as to the reason for higher yields here—yields amounting, in some cases, to over 10%, and in many cases to well over 8%—discloses that either high operating costs, or political entanglements or, as in the case of New York and Chicago tractions, both high costs and political entanglements, are the cause. The recent declines registered in costs, and the apparent tendency toward lifting these concerns out of the political slough, give their securities tempting possibilities at current levels.

KAHN TELLS WHY PROSPERITY IS DELAYED
(*Continued from page* 4)

move the immensity of the advantage now offered by such securities.

Sound Legislation a Prerequisite for Prosperity

With due deference I venture to say that the people judge a political party not by the details of its legislative enactments but by their results. What is of vital concern to the average man and woman, as distinguished from agitators and vociferous "spokesmen" is not whether the surtaxes are 20, 30, 40, or 50%, but whether the actions of the party in power will, in effect, retard or promote the return of good times and abundant employment. It is my business to keep track of the currents which determine the trend of affairs, and I speak from practical knowledge **when I say that good times and abundant employment cannot return as long as enterprise is lamed and the natural flow of capital deflected by oppressive and exorbitant taxation.**

VANDERLIP PROPOSES GREAT INTERNATIONAL RESERVE BANK
(*Continued from page* 7)

permit Europe to resume work and at the same time place it in a position to buy raw materials, necessary, from this country. The control of the bank will be in the hands of American financiers, but it is planned that the total directorship shall incorporate bankers from each country in which branches are to be established."

A plan typical in breadth of thought of Frank A. Vanderlip. Incidentally, the first step towards the actual *"internationalization"* of the gold dollar.

TRADE TENDENCIES

(Continued from page 49)

posed to follow a conservative policy although it is not quite so stringent as several months ago. There are even instances of large orders for the anticipation of future requirements. And where dealers and other interests are not inclined to order ahead they are placing orders for prompt shipment more frequently so that the aggregate volume of business is increasing.

Some of the larger paper mills are working at close to capacity and others are increasing operations or are resuming, where operations were at a standstill. Labor conditions are more settled and, in general, from an industrial viewpoint, conditions are in a healthier state.

The newsprint situation has improved but there is a serious factor steadily tending to interfere with this industry. This refers to the steadily increasing volume of newsprint exports from abroad, particularly from Germany. There is no doubt that this feature, which was forecast many months ago in these columns, will continue to exercise a growingly preponderant influence unless checked in some efficient manner.

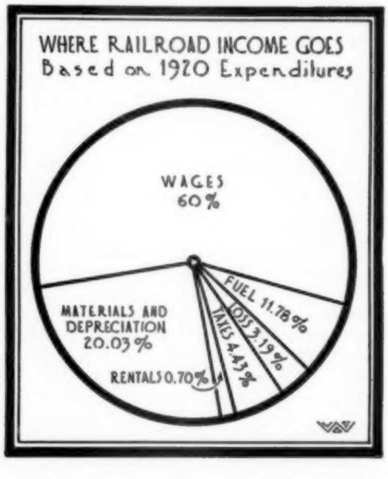
There are two reasons why foreign competition is becoming stronger. One is the low cost of German and other foreign production and the other is the low freight rates from foreign ports to Atlantic seaboard as compared with rates from domestic or Canadian points to the seaboard.

It costs $2.00 less a ton to ship a ton of newsprint from Germany to New York than to ship a ton of the same paper from Niagara Falls across the State of New York. Obviously, under these conditions, American or Canadian producers have by far the worse of the situation. American publishers, of course, are favorably affected but it is very much of a question whether the permanent results in this respect will be satisfactory. It is certain that our publishers cannot continue to depend largely on foreign sources. In the meantime, however, domestic production to a certain extent is bound to be discouraged. When the European demand for newsprint increases again, which it will with the return of normal conditions on the Continent, foreign newsprint producers will find a market right at home. In the meantime, production over here will have been curtailed and when the American publishers now depending on foreign supply turn to the home sources, the result is very likely to be a sharp upturn in prices. However, this is a long-distance consideration and it may indeed be altogether an impossibility if the freight rates on newsprint are reduced to meet foreign competition, as this is the deciding factor under present conditions.

RAILROADS

The Question of Rates

While railroad rates are out of proportion to the ability of consumers to pay, and while this problem remains one of the most difficult faced by the Administration, the situation is generally misconstrued by the public. It is the common idea that railroad rates remain at the highest point



reached. This is not quite true. As a matter of fact, very considerable adjustment has already been affected with regard to rates in different sections of the country. To enumerate a few: cargo coal from Ohio, Western Pennsylvania, and West Virginia to Lake Erie ports, grain and grain products in many parts of the

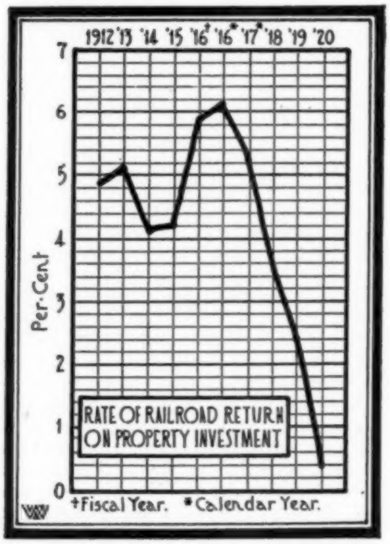
MARKET STATISTICS

	N.Y.Times 40 Bonds	Dow, Jones Avgs. 20 Indus.	20 Rails	N. Y. Times 50 Stocks High	Low	Sales
Monday, Oct. 24	71.01	71.81	72.40	64.50	63.60	540,085
Tuesday, Oct. 25	71.09	71.88	72.22	65.17	64.06	762,860
Wednesday, Oct. 26	71.05	72.27	71.46	64.94	64.13	627,018
Thursday, Oct. 27	71.07	72.78	72.20	65.01	63.95	664,623
Friday, Oct. 28	71.38	73.80	72.94	66.04	64.99	987,247
Saturday, Oct. 29	71.42	73.93	72.80	66.13	65.55	378,360
Monday, Oct. 31	71.52	73.21	72.56	65.96	64.82	687,170
Tuesday, Nov. 1	71.61	73.44	72.53	65.44	64.64	607,889
Wednesday, Nov. 2	71.88	73.52	72.58	65.51	64.68	594,280
Thursday, Nov. 3	72.37	73.98	72.70	65.96	65.16	546,645
Friday, Nov. 4	72.51	73.94	72.49	65.80	64.93	545,055
Saturday, Nov. 5	72.67	73.91	72.43	65.23	64.88	210,357

country, including a drop in rates of export wheat from Chicago to the Atlantic seaboard, export iron and steel articles, and ex-lake ore. There have been hundreds of other instances of rate reductions. One of the most recent is the Southern Pacific average cut of 20%. On some railroads, reductions in rates have exceeded reductions in wages, and on others reductions in wages allowed no increase in net return, merely providing against a further accumulation of the deficit.

The rate situation is thus confused. On the whole, however, it can be said that in proportion to the drop in commodities, railroad rates have not dropped enough, despite the earnest efforts of railroad executives to provide relief.

A glance at the attached chart will show that the bulk of railroad revenue, amounting to 60.22%, goes to railroad labor, the nearest item being cost of material, supplies, depreciation, etc., amounting to 20.03%. These two items in 1920 consumed 80.25% of the entire railroad revenue. It is obvious that the only possible source of important financial relief is to cut either one or both these items. Before rates can be reduced much further from present levels, wages must come down and possibly some alteration should be effected in the item of material, cost and depreciation. Wages, however, remain the vulnerable point.



The entire question of rates, therefore, depends on wages. If wages can be reduced, rates will be reduced further. If not, the entire business of the country is bound to suffer, as the present high level of rates is unbearable to many interests.

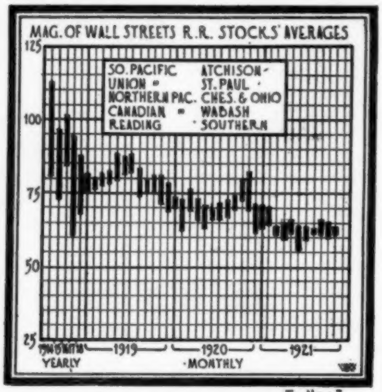
Last year's return for all the railroads showed a net return of 0.32% on property investment. This was the lowest figure shown in a number of years, despite the greatly increased rates and volume of traffic. The cause for the poor operating return was the high labor item and other operating expenditures.

The railroad executives have made good strides this year with regard to effecting economies of operation but they have nearly reached the limit in this regard. They can economize no further without

TRADE TENDENCIES

(Continued)

seriously affecting the efficiency of their properties. Thus they are again confronted with the wage item. The railroad unions have recently shown that they will not tamely submit to another wage cut and were practically supported in their contention by the Labor Board, though the strike was called off. A deadlock has



To Nov. 3

been reached. In the meantime, however, the roads are posting notices of wage cuts for certain classes effective December 1.

Certainly rates must come down further unless business is to continue on the present crippled basis. How this vital question will be solved cannot be answered here but it would seem that for the best interest of all concerned, the various railroad interests should get together and compromise on the debated points.

TOBACCO

Price-Cutting a Feature

Conditions in the tobacco industry are highly irregular and while a few scattered instances of improvement are noted, it is apparent, from the statistics available, that complete readjustment has not yet been affected. Separating the products of this industry into two broad classes: (1) the high-priced and medium priced tobaccos and (2) the cheap grades. It has become evident that the latter is prospering at the expense of the former. In other words, owing to reduced purchasing power, the public has turned from the more expensive tobaccos and cigarettes to the less expensive brands. Broadly, the cigar industry has suffered more than either the cigarette or smoking-tobacco industry on account of the greater cost of the former article.

A few statistics may serve to bring out the situation, at least as it stood at the end of August, the eighth month of the year. In that period production of cigars fell 18% as compared with the same period last year: on the other hand, production of cigarettes was 10% above and small, cheap cigars 8% above. It is apparent that cigarette and small cigar production gained at the expense of cigars.

Considerable competition has been manifest in the various tobacco lines. For example, the largest retail tobacco concern has cut several well-known cigarette brands by 12½% and has cut many other lines by an equivalent amount. Manufacturers have also been compelled to modify their ideas as to prices. Competition is perhaps most marked in the largest cities.

From various sections there come reports of slightly improving business owing to the approaching Christmas season. However, this has not as yet resulted in a marked change of buying policy. Trade consumers while they have shifted slightly from their policy of buying from hand-to-mouth are mainly conservative and prefer to await developments before largely increasing their orders inasmuch as they are confident that they can obtain needed goods without difficulty.

Generally, the level of prices is lower and probably will go lower after the Christmas season. In this connection, however, much will depend on the attitude of Congress with regard to a further tax on tobacco products. Should the legislative body take the inadvisable course and increase the tobacco impost again, it would be impossible to reduce price lower although the effect would be to severely curtail the rate of consumption. Probably the higher tax will not be made law and in that case natural economic developments may be depended on to result in a generally lower price level on most tobacco products.

The more efficient chain store systems are gradually liquidating old stocks though at reduced prices and are more or less rapidly adjusting themselves to the new situation. Economies of operation have been effected, and very probably the margin of profit will not be much lower than under conditions a half year or so ago. These companies and a few manufacturers of the particularly popular brands should make a satisfactory showing, although it cannot possibly be as good as that shown last year.

The crop is about 34% under last year's. The price situation is irregular. Thus Connecticut crop prices are expected to be somewhat lower whereas the burley crop in Kentucky will probably obtain higher prices when the sale opens in December.

BUILDING

Considerable Increase in Activity

Reports from various sections of the country indicate that there has been a notable gain in building activity. Gains are shown in the Western and Southern states and likewise in the industrial sections of the East.

The most conspicuous gain is in residential building but there has also been a significant increase in the amount of business building. Public works show a gain and also new public utility operations.

For the first nine months of 1921, the total of contracts awarded amounted to $1,746,759,000. This was about 15% under the 1920 figures for the same period. On the other hand, it was about 60%

above the figures for 1913, indicating the permanently higher level of building operations.

Naturally the various products used in building have benefited from the increase of operations. Lumber, particularly, has improved and is now on a fairly healthy foundation. There is a strong demand for yellow pine and higher prices have been reached owing to the inability of some manufacturers to meet the demand for prompt shipment. Other grades of lumber have improved and it is interesting to observe that furniture manufacturers for the first time in a considerable period are expanding their operations cautiously.

It is rather gratifying that building has held up so well, considering general conditions. Labor is still a formidable factor and if a lower wage scale could be affected no doubt the result would be greatly increased volume of building activity. Mortgage money is slightly more plentiful and in a general way, home builders and others have better facilities for entering building operations. Conditions, however, are still not as good as they might be but slowly they may be expected to improve. Broadly, the trend seems upward in this industry and others closely allied with it.

HOW EXCHANGE RATES CAN BE STABILIZED

(*Continued from page* 13)

terest for the whole world today is that of the interallied debts and German reparations.

"A discussion in an open minded spirit of this problem would be of great value—it must eventually be discussed—mutual concentration and a long view by the nations concerned will certainly avoid the possibility of a catastrophe and will certainly be cheaper in the end.

"To get a real grip of any situation one must see the situation with the eyes of the other man as well as one's own and one must not forget that if the great creditor countries balance budgets and still further appreciate their own currencies they only make it more difficult for other countries which cannot balance their budgets to buy from them, so that the quicker such countries are aided to balance their budgets the quicker trade will revive and the sooner their purchases will recommence from the United States."

WE WILL KEEP OUR FOREIGN TRADE

(*Continued from page* 12)

the world until in every corner of the earth will be known the quality of our merchandise and the fair dealing of our merchants.

Necessity demands that we keep our foreign trade and we will keep it, if we keep in mind, as we for most part are doing, the big idea and not become influenced by the magnified details which we hear from time to time. Details are important, but they, after all, form only a part of the whole eclipse the main subject of which they and not one of them is large enough to form a part.

MY REASONS FOR SUPPORTING A PROTECTIVE TARIFF

(Continued from page 7)

"Well I resent that strong language." I said "Then you don't care to be told the truth?" My mother said it was sometimes better to keep still than tell the truth, but I was telling the truth then, my friends, and I made him take it back.

I saw in a Detroit paper about ten days ago or so a statement to the ladies of the country: "Ladies, you are going to pay from 50% to 100% more for toilet articles of every description." And it went on and named them: face powder of every description and tooth powder, and they claimed that was so because of the increased rates under this new law.

We did not increase them at all. We adopted the Underwood tariff rates on all those articles. The Underwood tariff bill, you know, was a tariff for revenue.

That Woolen Schedule

My good friend Congressman Copley is not pleased with everything in the tariff law. Neither am I. I am not pleased with the woolen schedule. It is not fair to the farmer, and it is not fair to the woolen manufacturer, and I hope the Senate will make it better. And if they do, and the Lord lets me live, I will be one of the conferees, and I will stay a long time in the conference room before I will agree to the House provision if the Senate provision is better.

We consume in the United States about 540,000,000 pounds of wool annually. We produce a little more than one-half that amount. Under the Underwood tariff law, wool and sheep are on the free list. The state of Texas is the state where the greatest number of Angora goats are raised, and there was one man on that committee from Texas, so Angora goats went on the protected list.

When the bill was enacted into law, we had in round numbers sixty million head of sheep in the United States. When our emergency tariff bill was adopted in May, we had thirty-four million. When that bill was adopted in 1913 we had two and a half million Angora goats, and in May of this year we had 3,600,000.

If we were engaged in a great war, and driven from the seas, we would have to depend upon the wool that we produced at home. If we were driven from the seas, as Germany was, we would have to depend upon our own resources, and we do not produce enough wool to supply our own people. Therefore, let us encourage the production of more sheep in the country if we can.

The old tariff board created by the Taft administration made the best report ever made on wool. They visited the wool growing countries of the whole world. Australia and New Zealand produce 900,000,000 pounds of wool a year, and only consume 100,000,000 pounds. They have for export 800,000,000 pounds in a normal year, or about three times the amount that we import.

That report shows that wool is a by-product in Australia and New Zealand. Enough money is made from the sale of ewes and lambs to pay the running expenses of the flock, and therefore wool is produced without any cost attached to it. The freight rate from Australia to Boston is two cents per pound. The cost of producing wool west of the Missouri River is eleven cents on the average, and the freight rate is two cents. We had a duty of eleven cents per pound under the Payne tariff law, so the Australian wool was laid down in Boston at two cents freight charge and eleven cents duty, which put the American wool grown in the western country on an exact par with it, at thirteen cents per pound. The present law removed that duty, and crippled the industry. It transpired that every sheep west of the Missouri River this spring was mortgaged at $9 per head, and every animal, steer or cow was mortgaged at $45 per head, more than they would sell for. That was the testimony before our committee.

Lamb Chops vs. a Whole Sheep!

When we had the emergency tariff bill up I went down to the House restaurant for something to eat one day. I ordered lamb chops and paid 65 cents for two little things with about two mouthfuls on each. I had in my possession, and presented it to the House, a copy of a statement on a shipment of sheep from the west to the Chicago market. After paying freight, stock yards charges, discounts, allowances and insurance, nineteen hundred head of sheep netted the western farmer 35 cents per head. He received as much for a whole sheep as I paid for one lamb chop. Somewhere between the farm and the consumer somebody made some money, or else the cost of distribution was very high.

Now, it is said that the farmer is the best taken care of man that there is in the country. That is a mistake. That is not correct. Expenses on the farm go on incessantly. A factory may close and shut off at least a portion of its expense, but you cannot stop the expense of maintaining a farm. One-third of our people in round numbers are farmers, and they produce the bread and butter, in the first analysis, that the people of the United States consume. Therefore, the farmer is an important part of our makeup, and our laws should be equitable and just to the man who produces the articles that we must have. Would you not believe from this sort of an argument that I am really somewhat of a protectionist? Indeed I am, my friends.

A young man called on me at my room and wanted to argue with me that free trade was best for our people. Why, we had free trade under the Wilson bill, from 1894 to 1897, thirty-six months. I did not go into the hands of a receiver, or go through bankruptcy, because I did not have anything.

But what I did have suffered. I sold steers, three-year-old steers, for $22.50 in the state of Michigan at that time. Instead of selling my wheat for 48 cents per bushel, which was the price then, I gathered it and fed it to the hogs and sold the hogs for 2½ cents per pound. I sold potatoes for 12½ cents per bushel, what few I did sell, but I never saw so many people hungry for pork and beef and potatoes and everything else during those times as I did then. We had free trade then. Why did we not have better times? If bread were a penny a loaf and the laboring man did not have employment to earn money, and had no money, how very expensive that bread would be to him!

The poorest asset of any nation is the laboring man out of a job, and the greatest good that one man can do for another is to furnish him employment at remunerative wages, by means of which he may supply to his wife and little children, whom he loves as much as the rich man loves his, the things that they need.

We send abroad 8% of our agricultural products, and we market 92% at home. We are our own best customers.

Now, this American valuation is one of the real bones of contention in our tariff law. The great importers are opposing it, and there is a great propaganda going on to defeat it.

In 1908 there was just exactly such propaganda started against the duty on linoleum. Let me tell what started that. In the Dingley tariff law there was a provision that said that all linoleum under twelve feet in width should pay one rate of duty, a lower rate of duty, than linoleum wider than twelve feet. As I remember it, it was eight cents per yard and 10% ad valorem on all linoleum under twelve feet in width. All linoleum more than twelve feet in width paid 15% ad valorem, and 25 cents per yard. There was quite a difference in the duty to be paid. We found that as soon as that became known in the law, certain importers at New York, sharp, shrewd, keen, cunning business men, went to Japan, where the bulk of the linoleum of the world was made, from which country we imported our linoleum principally at that time, and they purchased linoleum there eleven feet, eleven and three-quarters inches wide, and some of it eleven and a half inches, and brought it in, and insisted upon paying the lower rate of duty because it was under twelve feet in width. The customs officers imposed the higher rate of duty. The importers went into court, and the Supreme Court of the United States said, "The law says that linoleum under twelve feet takes the lower rate of duty," and the importer won out. That linoleum was sold for twelve-foot linoleum in this country.

Then we in the Payne tariff law said, "All linoleum nine feet or under shall take the low rate, and all linoleum over nine feet shall take the high rate." Then they could make it ten or eleven feet if they wanted to. The importers, and particularly two institutions in this

town, started propaganda, and my God! I got more telegrams and letters in twenty-four hours than a peddler could pack, protesting against the high rate of duty on the poor man's carpet. Well, we threw them in the wastebasket and we passed that law. It was what should have been passed. And just as was the case when they were opposing that law, so you will find, in connection with this law many reasons why the statements that you hear and see over the country should be very carefully considered before you accept them as true.

RANDOM NOTES ON A TEXTILE SUCCESS

(*Continued from page* 30)

period of depression stronger, more heavily armored, better equipped, stronger financially than almost any other corporation of similar magnitude. In every way he has shown sound business judgment, far-sightedness and the indomitable spirit that overcomes obstacles in the path of business success.

Mr. Wood occupies the same place in textiles that Mr. Gary does in iron and steel, Mr. Schwab in shipbuilding and Mr. Sinclair in oil. Unlike many other prominent textile men in New England, he was not born in the purple; instead he drifted into textiles. His father was a sea captain. His family moved to New Bedford, the most adept and skilled of the textile cities, and worked in a bank that transacted much business with the mill owners. Here he acquired good knowledge of mill financing. Next he got a job with the Border City Cotton Mills at Fall River, Mass., and here he acquired knowledge of textile manufacture.

Twenty-five or thirty years ago New England newspapers used to carry big advertisements of Ayer's Sarsaparilla. The New England spinners could take a few swigs of this efficacious remedy and with the resulting good feeling perform prodigies of labor. It contained a good percentage of alcoholic content, and today would be a tremendous seller were it not for the governmental edict against this kind of sarsaparilla. The manufacturer and vendor of this nostrum was Mr. Frederick Ayer, and the money came in so fast that he sought an outlet for his surplus funds by investing in shares of a new woolen mill, the famous Washington Mills located at Lawrence, Mass. But the brains that can manufacture and market a good live kicking sarsaparilla can be all at sea in the conduct of so complex an enterprise as a textile mill. The Washington Mills gave every promise of losing money just as fast as Mr. Ayer could make it with his sarsaparilla. He looked about for a likely manager, and his choice fell on Mr. Wood. He made Wood treasurer of the mill.

The treasurer of a textile mill is something more than a mere treasurer. He is the whole works. In him responsibility for success or failure centers. Mr. Wood proved to be a most able and astute manager and he soon had the Washington Mills operating on a profitable basis.

How American Woolen Was Launched

With the Washington Mills going good and with ample financial backing, Mr. Wood looked about for new worlds to conquer. When the era of big combinations came in and the United States Steel Corporation was organized back in 1899, Mr. Wood conceived the idea of combining seventeen of the foremost New England woolen mills under one management, a single, well balanced, strongly financed corporation. He said it would stabilize the industry. It was an astounding proposition to put before the conservative New England textile manufacturers. They declared the combination proposition to be utterly impossible, impractical, a preposterous idea. But Mr. Wood showed them how great economies could be effected, and as business with the woolen manufacturers had been poor for several years, there wasn't much choice for them. They had to come into his combination or go broke.

So, with seventeen old and decrepit woolen mills, some of which had been operating for thirty, forty, fifty and even seventy-five years, with old-fashioned machinery, old-fashioned methods, the American Woolen Company was launched.

Almost from the first it made good. It has paid dividends regularly upon its preferred stock since its organization, and on its common stock since April 15, 1916. By purchase and by the erection of new mills the company now owns and operates fifty-seven mills, all of which are free from leases, bonds and mortgages of any kind. At the close of business, December 31, 1920, it had assets totalling over $126,000,000. Its surplus was figured at about $31,-000,000.

In Lawrence, Mass., it has built two vast mills, the Ayer Mills and the Wood Worsted Mills, which are the last word in mill architecture and equipment, and the largest mills on earth. When its new Arden Mills are completed it will have the greatest combination of textile machinery under one management ever known. It is now so strongly intrenched with mills and equipment, in manufacturing and selling facilities, that it stands well-nigh impregnable, and it has nothing to fear from foreign competition—in fact can beat the world in textile manufacture. Australia can raise the wool, and England and France and Germany can manufacture woolen goods, but the American Woolen Company has made of Boston the world's premier wool market.

Today this corporation sets the styles in wool fabrics and markets its goods in every country on the globe. It is stronger financially than ever before. Its future looks brighter than ever before. It is a business enterprise of which the whole country can be justly proud, a shining example of what sticking to the job, honest methods and astute business judgment can accomplish.

THAT INCOME TAX

(*Continued from page* 16)

The principle of this provision is recognized as being just, and it forms a permanent part of the English income tax system. A comparable provision is contained in the existing revenue act, so limited that only net losses incurred in 1919 can be availed of, and then only to reduce taxable income of 1918, the prior taxable year.

Briefly, the new provision allows a net loss incurred in trade or business in any taxable year after 1920 to be offset against the net income of the first or second succeeding taxable year. It should be noted that the only net losses recognized are those incurred in a taxpayer's trade or business; that is, only those net losses are deductible which result from a taxpayer's principle activities, as opposed to losses resulting from incidental ventures.

Unfortunately, the relief afforded by the proposed provision is more apparent than real, because the majority of business losses actually occurred in 1920, a fact the legislators have artlessly overlooked. Taxpayers with abnormal incomes in 1919 and abnormal losses in 1920—the usual case—gain nothing by the proposed provision, and they are not benefited by the provision already existing. Net losses of 1921 are deductible only in 1922 or 1923—a privilege of value only in the event that net incomes are earned in the latter years.

FURTHER IMPROVEMENT IN OIL INDUSTRY

(*Continued from page* 38)

until Mexico developed produces little oil since the Bolsheviki have had control, and it will be some time before the extensive fields there will be able to supply Russia's own needs.

Next to Persia the East India fields in Sumatra, Java and Borneo form the most important oil supply outside of the United States and Mexico until South America gets going strong. Holland largely controls the islands and the Dutch-Shell interests have a virtual monopoly of the oil.

A great deal of anxiety is expressed by messenger boys from the diplomatic corps and the publicity squad lest the United States lose control of the petroleum supply and trade of the world, but there is no reason to worry from that angle. There is more anxiety expressed by producers and refiners because export trade is not greater, the situation seeming to be that the petroleum industry of the United States is more threatened by lack of a market for its surplus, or possible surplus, than by any lack of dependable supply of crude oil. A study of the weekly customs statements issued in Great Britain shows an increasing volume of imports into the United Kingdom from sources other than the United States, with a corresponding shrinkage in exports from the United States. During the last six months an unusually large percentage of the exports from the United States to Great Britain has been fuel and gas oil, low-priced products, and a corresponding shrinkage in volume of the higher priced products.

BUCKET SHOPS AND THE REMEDY FOR THEM

(*Continued from page 9*)

Gunning for the Big Fellows

It is not the stranger to the stock market who is the victim. The modern operator hunts up the big men, frequently wearing them away from old established Stock Exchange firms. Take a typical instance, true, except for the name of the victim.

John Smith—which is NOT his name—is vice-president of a bank in a sizable city, not 350 miles from New York City. He is a lawyer by profession, though not active since his term as Federal District Attorney (possibly it was Assistant District Attorney, but time courteously dims the memory slightly. He is regarded as one of the shrewd business men of the section in which he resides. Occasionally he visits New York, driving down in his big car and putting up at one of the principal hotels. He visits some bankers with whom he is on terms of business intimacy, and calls on a few business men who occasionally make use of his up-State institution. Altogether, Mr. Smith is an up-to-date American business man, honest, smarter than the average of his fellow citizens, and with a personality that retains for him the friends he has won.

But several weeks ago Mr. Smith was "cleaned" of $10,000 or $15,000 by a bucket shop, and he doesn't yet know how it happened. The closest investigation has disclosed no ground for any action, civil or criminal, against the firm of "brokers" who got Mr. Smith's money. Further, they are threatening to sue him for an alleged debit balance of several thousand dollars, with the result that, when Mr. Smith is not worrying about his chances of wreaking some sort of vengeance on his despoilers, he is worying for fear they will start that suit against him.

The bucket shop firm has no idea whatever of starting suit, but knows that fear must be kept alive in Mr. Smith's breast.

To understand how it happened that Mr. Smith managed to lose his funds without having recourse, it is necessary—and we will find it interesting—to see how the snap-bang, up-to-the-minute bucket shop operates.

How They Do It

The New York Stock Exchange has battled weakly and ineffectively against the bucket shop evil for many years. Possibly it is better to speak of the evil as illicit brokerage, for bucketing no longer consists in merely taking a memorandum wager on a stock, or "making a memorandum on the cuff of a cuffless shirt," as some wag has put it. The difficulty is that the Stock Exchange must pick out definite practices in order to pronounce them wrong, and as fast as its methods have been condemned the bucketing fraternity has trotted out a new set of tricks and has proceeded to show how the quickness of the gang outwits the efforts of those who strive to protect Mr. Average Man and his accumulations. The 1921 buccaneer of finance is shrewd and an even closer student of his business than his enemies. The reputable financial interests are concerned mostly with brush-

ing him out of the way and devising methods of keeping him from making improper use of legitimate facilities. But the bucketeer is engaged constantly in seeking ways to circumvent every device set against him, and is also endeavoring to keep at least one lap ahead. He has his lawyers, too, who keep him informed just how far he can go and still keep out of jail.

On the "face of it," the bucket shop cannot operate without a ticker, or wire service, giving quotations of stocks on the floor of the New York Stock Exchange. Deprive him of quotations and it is obvious that the bucket shop man has nothing upon which to make or decide a wager. That is, it is obvious, but doesn't work out that way. The Stock Exchange has practically found out that the only effectual way of depriving the illicit broker of quotations is to suspend business altogether. At one time the Stock Exchange went so far as to suspend its ticker service entirely, employing runners to carry the reports of trades from the floor of the Exchange to the offices of the members. Yet, somehow, the quotations found their way into the wrong hands almost as quickly as into the proper ones. In fact, it was the boast of some of the bucket shop operators that their special wires to the out-of-town offices they maintained had beaten the legitimate wires with the quotations.

The New York Stock Exchange tied the Western Union Telegraph Company up in a contract that prevented the transmission of continuous quotations over their wires, except by those authorized to send them as approved by the New York Stock Exchange committee on quotations. This did away with the leased private wire operated by bucket shops and apparently struck a body blow at the gentry.

But did it? It did—not.

The discovery was made that the telephone companies are authorized to act as telegraph corporations and that it is possible to send telegraph messages over telephone wires without in any way interfering with the transmission of the vocal message. There has been a quiet rush since then to lease wires from the telephone companies, connecting the branch offices of the illegitimate brokers with their New York offices.

So thickly has the New York Stock Exchange hedged about its quotations with restrictions that apparently it is not possible for the bucket shop today to get them, except some minutes late. Time was when this sort of delay would have been a great handicap where legitimate brokers were in the field. But under the development of the new methods, including the persuasive telephone salesman, the timeliness of the quotations has become secondary. The main thing is to get hold of a good prospect, convert him into a customer, "build" him up, and then "send him to the cleaners."

Local Trade Not Wanted

The 1921 bucketeer does not go in for local trade. At least, the one who sets himself up in New York does not. He prefers to advertise or otherwise get in touch with the "prospects" in the smaller or "hick" towns. Once he gets them, he holds to them, "builds them up," which is another term for overloading the account, and, finally, in the heartless jargon of the Bucket Brigade, "cleans" them. "Sending them to the cleaner" is a common phrase, and it is worked in various ways. The result, though, is the same in every instance. The victim is left without a cent to his credit at his brokers, and usually is informed that he still owes a large amount. Every effort is made to collect this final balance, except that of going into court, notwithstanding that in a legal action the 1921 bucket shop could undoubtedly produce every necessary document to prove a valid claim.

An attractive advertisement in his hometown newspaper attracts the occasional trader in stocks and he writes in for the free, complete review of some industry or some particular stock.

Or, possibly, the victim's name is obtained from a commercial or credit-rating agency.

However, the prospective client is called to the long distance telephone. It gives the average man a sense of importance to be told that "New York is calling," but it does not seem possible that any normal human being could be persuaded in a 10-minute interview to sit right down and write a check for $1,000 or $5,000 to the order of a self-styled broker who has given no references.

Don't Lose That Chance !

"Your letter asking for data on United States Steel," the telephone salesman says, "has just come in, and we're answering it at once. But I am calling you because by the time the letter would reach you tomorrow the chance would be gone."

Then begins the story that is handed out over the telephone wire hundreds of times a day. A story so improbable that one wonders at the manner in which a man's common sense vanishes when his cupidity is aroused. The usual story is that the firm represents some of the biggest leaders of finance and handles the distribution of buying and selling orders for pools. It has its fingers always on the market pulse. There has been little action lately, but only this morning the firm, unexpectedly, received orders from large interests to buy 100,000 shares of something or other, and in so doing, of course, will buy and sell many hundred thousand This is the victim's opportunity to get in on the stock at the bottom and sell out when the pool begins distribution—at the top.

The victim's inclination at first is to ask the familiar query, "Why're you so good to me?" Easy enough. The brokers are willing to let the talkee in because, as the talker explains, the more buying power they have at the beginning, the better they can get control of the stock. This is arrant nonsense, of course, but the telephone salesman believes that the more technical the twaddle sounds, the easier it is to land the fish.

UTILITY BONDS
(Continued from page 47)

1920, compared with 9% in 1919 and 11% in 1917 and 1918.

An examination of the annual report shows that the company is having a satisfactory growth and the earning statements indicate that the interest on bonds is well protected.

ADAMS EXPRESS BONDS
(*Continued from page* 19)

market value $671,277 and miscellaneous $138,908, a total of $15,829,652. Deducting all liabilities, other than the two bond issues we are considering, of $1,835,515 and reserves of $2,115,564 the total net assets over and above the pledged collateral amounted to $11,878,573, as carried on the books of the company. These figures include the stock of the American Railway Express Company at par, which is hardly a fair figure to carry this stock at, at the present time, with its definitely established 6% dividend, however; a conservative value to place on this stock would be 70, and after adjusting its valuation to this price the current value of the net assets of the company, in excess of the pledged securities, would be about $8,307,283, or approximately 50% of the total outstanding bonds of both maturities. **Thus it is seen that the liquidating value of the company's assets at the present time is very considerably above the total par value of the outstanding bonds.**

The total income of Adams Express Company is derived almost solely from dividends and interest on securities owned. The return on the pledged collateral behind the two bond issues would average something in excess of 4%. This would amount to about $435,006 on the securities pledged against the 4s of 1947 as against interest on the present outstanding bonds of $359,900; and to about $346,880 on the collateral behind the 1948 issue, as against interest charges of $291,880. In addition the company receives interest on its other investments. These are made up of a $2,250,000 second mortgage on the Adams Express Building, 65 Broadway, New York City, which the company sold about a year and a half ago; $11,904,300 American Railway Express Company stock; and $671,277 miscellaneous investments. The second mortgage probably draws interest at the rate of at least 6%, or $135,000 per annum; the 6% dividend on the A. R. E. stock amounts to $714,498; and the miscellaneous investments, which are valued at market, probably yield at least 6%, or about $40,276. Thus the company's income account would probably show up about as follows:

Estimated income pledged collateral (1947)	$435,006
Estimated income pledged collateral (1948)	346,880
Estimated income Adams bldg. mortgage	135,000
Income on Am. Ry. Exp. stock	714,498
Estimated income miscellaneous items	40,276
Total estimated income.	$1,671,660
Estimated expenses	300,000
Net available for bond interest	$1,371,660
Interest on Bonds 1947 & 1948	$651,780
Indicated times earned.	2.10

As the company has not given out any recent income account these estimates have been purposely made very low. The latest available statement of the company, covering the 9 months and 10 days from July 1, 1918, to April 10, 1919, showed net income, after expenses, of $1,257,949, or at the annual rate of about $1,677,265. In this period, however, no income whatever was received from the American Railway Express stock, which, had the 6% rate then been in effect would have brought the total income to $2,391,763, or over 3½ times present interest requirements.

Conclusion

To sum up, the following features make these Adam 4% particularly attractive.

1. The bonds are definitely secured by a diversified list of pledged collateral which even in the present low market has a value considerably in excess of the market price of the bonds.

2. This pledged collateral is, for the greater part, made up of high grade bonds and as the majority of the issues mature not far from the maturity of the bonds they secure a steady market appreciation should manifest itself.

3. As the respective Deeds of Trust of the two bond issues provide that upon maturity of the bonds the Trustees shall sell and dispose of the collateral and divide any surplus remaining, after payment of principal and interest, pro rata among the holders of the bonds the possibility exists of their receiving considerably in excess of par.

4. In addition to the pledged collateral the company owns other valuable assets and, as the bonds are a direct obligation, they have a claim against all the assets of the company, if by any chance the pledged collateral should not have sufficient market value to liquidate the bonds at maturity.

5. The company is not actively engaged in any line of business and eventually it will resolve itself into a virtual trusteeship for certain securities available for its bonds and stock.

6. As no actual business is being conducted, no business hazards exist and owing to the diversity of the collateral behind the bonds and the other assets of the company a holder of Adams 4s is in a much safer position than if he held any one bond of any particular operating company.

7. If the general market should show any marked improvement over the next few years there is a strong possibility that the company might decide to liquidate and pay off the bonds before maturity.

8. The company is steadily buying in its outstanding bonds as it has funds available, thus increasing the security of those remaining. From April 10, 1919, to December 31, 1920, the 4s of 1947 were reduced by $740,500 and the 4s of 1948 by $527,000.

All in all both issues have a high degree of security and most excellent possibilities for substantial appreciation. In my opinion the advantages of the 1948 issue are not sufficient to justify paying practically 10 points more for them in preference to the 1947s. At 59 "flat" with an interest coupon due December 1st bringing the price down to about 57 the Adams 4s of 1947 are an attractive, well secured and sound investment.

Their purchase is recommended.

HOW A MECHANIC PLANS TO ACHIEVE FINANCIAL INDEPENDENCE

(*Continued from page* 36)

to rely only on my meager income to carry forward the plan I have laid out. All I ask of the Goddess is that she permit me to build my principal until it is large enough to return an income equal to what I could earn at my trade working 300 days a year at $6 a day. A return of $1,800 means that my silent partner will be earning as much as I could.

Why should I ask for more? I have always lived a simple life. A wage earner subject to fluctuating trade conditions has to live simply if he pays for a home, rears a family and provides for the future. Now that I have an income independent of my wages it would be inconsistent to change my mode of living before my objective was reached.

My investments have cost $5,730, and yield 6¾ per cent. Because I know that the low price, or high rate, on investments now prevalent is not going to last indefinitely I set my average income at 6%. An income of $1,800 on a 6% investment requires $30,000 capital. Still mindful of the gold mine venture I decided to follow the path of conservatism by acquiring high grade, seasoned securities.

Momentum

As soon as I had placed my goal at $30,000 I started to find out how long it would take to reach it. I hunted up the old algebra, after it had lain unopened for fifteen years, and found still there the long forgotten logarithmic formula for computing compound interest. A few applications convinced me that the law for compounding interest parallels that of the snowball rolling down hill.

After I had purchased my Liberties I found that my income extended over only eight months of the year, leaving two breaks of two months each in which I was denied the "coupon-clipping pleasure." I then purchased securities which would fill in the gap, and return an even flow of income. This arrangement affords the opportunity for compounding the income twelve times a year and shortens by several months the time required to reach the goal.

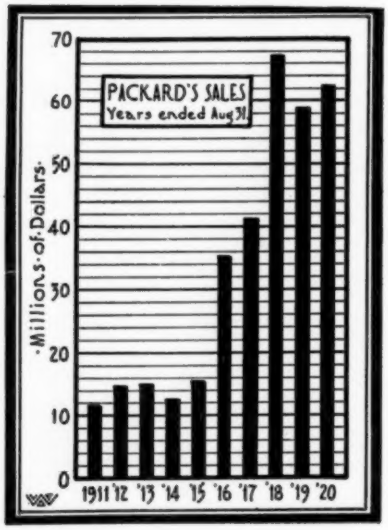
To carry out my plan of building an income of $1,800 on a 6 per cent return from a backlog of $6,000 I found by the formula would require 26 years and 8 months. Although planning for the age of sixty makes one shudder at thirty-three, the prospect of being without a competence at sixty is more fearful. This is brought to me more forcibly when I think of the men, with whom I work at a calling taxing a young man almost to the limit of endurance, who are beyond sixty and have no prospect of being able to stop before old age forces them to do so—and only because, when young, they did not methodically lay aside the little it takes to provide a competence for old age.

PACKARD MOTOR CAR

(*Continued from page 29*)

company reported the largest earnings in its history. Surplus available for dividends amounting to over $6,000,000, equal to $4.25 a share on the common stock and this result was obtained after charging off over $3,000,000 for depreciation. The report for the year ended Aug. 31, 1921 has not yet been made public. A good report is not expected as the company undoubtedly had to write off large amounts for inventory depreciation and this combined with the unusual expenses entailed by putting out the new model undoubtedly cut earning way down. In view of the past record of the company, however, one poor year should hardly be taken as a basis in judging the merits of the company's securities, especially in view of the special conditions which prevailed during that period and which reacted unfavorably on the company's business.

Working capital at the present time is estimated to be in the neighborhood of $30,000,000. This is more than the total



of the $10,000,000 bonds and $14,789,800 preferred stock outstanding, leaving all the plants and property of the company behind the common stock.

Did Small Car Hurt Business

There has been a good deal of talk to the effect that Packard made a serious mistake in bringing out its new model, that it has hurt the market for its high priced model and that the new car will not be a money maker.

There is no doubt but that the company would have done better in the past fiscal year had it stood pat on its Twin Six. To that extent these criticisms are correct. But what of the future? If the belief of the management is justified, Packard will make more money in the future with the new car than it ever could by refusing to expand into the moderate-price field. The writer believes that the past record of the Packard management is one to inspire confidence and

that the "light six" in the next few years will prove a financial success.

Position of Stocks

At present prices of around $5 a share the common stock is selling close to its record low price. In 1921 it sold as high as 12⅛, in 1920 the high was 28¼ and in 1919, 27½. There is 1,188,510 shares of the common outstanding of a par value of $10. In the four years ended Aug. 31, 1920 the company earned a total of about $16 a share on this stock, or more than three times the present market price. Net tangible assets behind this common stock are close to $30 a share and this does not include any value for rights, patents, franchises, etc. as the company carries these items on its balance sheet at $1. It looks like an attractive speculation.

The preferred stock is entitled to 7% cumulative dividends. It is selling around 67. The asset value behind this stock is so large that it looks like a most attractive semi-speculative investment at this level. There does not appear to be any good reason why this dividend should be reduced or passed, in view of the large working capital of the company and the fact that the recent bond issue cleared up most of the floating debt.

Of course the unexpected sometimes happens and the company may decide that it needs all the money in its business for the time being and temporarily hold up dividends. But, in that event, the holding up of the dividend would undoubtedly be only for a very short period of time.

TO BUILD OR NOT TO BUILD

(Continued from page 35)

yourself. Go over to Jersey, go north toward Tarrytown, go up toward Westchester and New Rochelle, or turn to the east and traverse Long Island to its tip. Everywhere you will see evidences of the truth whereof I speak. And remember—there are thousands of home-owners to one man who seeks for his profits in stocks.

It might appear from the foregoing that I am advocating the policy of mortgaging a home in order to secure cash with which to speculate. Not me. No man, whose entire cash capital is invested in his home could afford to be so foolish. The point I am endeavoring to emphasize is that the home, just the same as any other form of investment, possesses an actual asset value that can be utilized in order to take advantage of a real opportunity, and that if a certain portion of the amount were liquid, so that it could be invested safely in such a way as to yield a greater return than 6%, it might be advisable to do so, because then the capital would have an actual earning value in excess of the cost to secure that capital. Is this clear? Furthermore, it is a foregone conclusion that the man with a limited income must find other means of adding to this income aside from his physical efforts, and if by releasing a portion of the funds invested in his home he can enter into a profitable business enterprise, such a move might be considered advisable also. To take out these funds, and venture them in risky speculations, stock market plunging, and similar unwise moves, would be inviting financial suicide, and the home-owner might lose all, including his original investment.

ABOUT BANKS AND BANKING

(Continued from page 15)

then rallying 50 points to above 200. It sold around 315 last February, down to a low of 148 in September and is now around 235. The stock became very scarce around 150 and its sharp run up within a few days proves that a good deal of the selling was of a speculative character rather than the result of real liquidation.

The dividend has been reduced from $20 a share to $12 a share, and the difference of $8 annually in income available on the stock accounts for its new investment status at around 200 in place of 300 formerly. Doubtless, investors are appraising an 8% difference as being worth a drop of 100 points.

The "book value" of the stock shows a sharp falling off, the latest figure available being $243 a share. This stood at $251 in September, 1921, but directors have not only charged off all losses realized during the past two years, including losses on foreign exchange, but have set up an additional $15,250,000 contingency reserve. Even with this loss taken, the position is by no means as bad as it looks as in the past few years "Guaranty" has made as much as $50 per share a year after paying its former dividend of $20. It can now face the future with great confidence, a very sound dividend policy that seems well within its normal earning power—with something to spare to "plow back" to advance its book value from year to year.

The company is capitalized at $25,000,000, consisting of 250,000 shares of $100 par each. Although the yield on the investment would be a little under 6% at prices today, investors are satisfied to buy and hold for a long pull, confident in the ultimate earning power, and the ability of the company to pay a higher dividend and "extras" later on. "Guaranty" is the largest trust company in the field, and its aggregate deposits totaling half a billion dollars just about double the record of its nearest colleagues (we will not say competitors) the "Bankers" and "Equitable."

We estimate this year's earnings at around $20 a share which will enable the company to pay its new $12 rate and "plow" back a further $8. This estimate takes into account all further charges-off.

The stock is well regarded despite its bad behavior of the past few months; and we believe it will live down the rather disturbing price movement of September, 1921.

HOW TO WRITE BUSINESS LETTERS—by Walter K. Smart, Ph. D.

In order to give those who are interested in the study of business correspondence a discussion of the subject which is at once brief, logical, specific, and practical, is the purpose of this book. The book contains many specimen letters and in each the "how" and "why" of their success is carefully pointed out.

Price $1.70 p. p.

LAW OF GRAVITY APPLIED TO STOCK MARKET
(*Continued from page* 51)

obviously selling much lower than a normal investment basis, for example:

American Telephone paying $9 at 108 yields 8.3%. This stock will be in the bargain zone till it reaches between 120 to 125 to yield from 6.7% down to 6.4%.

Union Pacific paying $10 at 120 yields 8.3%. To sell upon a 7% basis this stock would have to advance to around 140. There is no reason why it should not sell within the next year even upon a 6% basis, but to be conservative we will estimate a 6.5% basis as fair, which would mean a price around 155. Is not Union Pacific at 120 in the bargain, or at any rate in the reasonable zone?

General Motors 7% preferred was recently around 70—a 7% stock without a breath of suspicion as to its dividend being in danger; the yield was 10%. Can I lay any claim to genius or prophetic insight when I say the stock is worth at least 88, or an 8% basis, or it will eventually sell at 100—a 7% basis?

Take Big Four preferred, recently selling around 60 and paying $5 to yield 8.3%. This is one of the strongest among all preferred issues and sold around 75 within the last two years. Is it difficult to "call the turn?"

Consolidated Gas sold below 80 a few weeks ago, a $7 stock to yield 8.8% that consistently sold well above 100, and at 106¾ two years ago. It has advanced to 90. Is the rise over? Not by a long shot! This stock must again sell on an investment basis, which means no more than a 6% return and a price of 116, which would not then begin to measure its real value, and possibilities for an increased dividend, or a "melon."

Anyone can go right down the list of *real investments* and find that the same condition prevails. The rise and fall of Mex Pete, Crucible, Middle States, Transcontinental, Willys—do not mean a thing as affecting the investment market. Such stocks (without reflection on their value) are not in the same investment class as any of the group previously mentioned. They do not usually sell on an "investment basis."

If you want to know where you are at, take a look at Telephone, Gas, General Motors preferred, Union, Canadian and Southern Pacific, Atchison, American Tobacco, General Electric, Steel—there is a long string of them that sell on investment merit, by right of consistent earning power, consistent dividends, consistent prices.

Buy them when the yield goes up to 8% and higher, and stay by them through 6% return period, and longer if necessary. It is seldom dangerous to hold while the return is above 5%.

Take a look at your average chart at long range. Examine the apple tree from a respectable distance, and remember:

"What goes up must come down."

Reaction is followed by action; and good stocks will always find their true investment levels if they fulfill the conditions stated.

ANOTHER SOUTHWEST ROAD WITH A BRIGHT OUTLOOK

(*Continued from page* 23)

that will bring considerable appreciation in value. Under the new funded debt this road should have no difficulty in covering its fixed charges. Of the underlying bonds the more attractive issues are the 1st & Ref. 5s of 1923 and 1926; the St. Louis, Iron Mt. & Southern Genl. Cons. Ry. & Land Grant 5s and the River & Gulf Division 1st Mtge. 4s. The 1st & Ref. 5s are selling to yield 7 and 8.3%, respectively. These bonds would be only suitable for the investor who is seeking a short term investment. The St. Louis, Iron Mt. & Southern bonds are selling to yield 6.2 and 7.4%, respectively. The Cons. & Land Grant 5s mature on April 1, 1931 and the River & Gulf Div. 4s on May 1, 1933.

Of the bonds further removed from the property the Missouri Pacific Genl. Mtge. 4s and the St. Louis, Iron Mt. & Southern Un. & Ref. 4s are about the most attractive. The former is a long term bond, maturing on March 1, 1975, and the latter a short term one, maturing on July 1, 1929. They are selling to yield 7.2 and 9.4%, respectively. Both are good investments.

The Preferred and Common Stocks

No dividends have been paid by the company on either class of stock since reorganization. There is $71,800,100 of preferred and $82,839,500 of common stock outstanding. There is about 15% of accumulated dividends on the preferred stock, which brings the current price of the stock down to about 25. At this price this stock is an exceedingly attractive speculation. The possibilities of the road earning and paying the 5% dividend on this class of stock within the near future are very good. Prior to the reorganization of the road the company was able to pay dividends of 5% regularly from 1903 to 1907 on the old capital stock, and under normal conditions it should be able to meet the dividend requirement of the new preferred stock. As for the common stock the writer does not see very much possibility for it for some time to come. The chances of dividends on this class of stock is indeed remote and we would not recommend its purchase at this time.

KANSAS & GULF CO.

(*Continued from page* 39)

Tank cars to the number of 600 are owned to transport refined oil. Steel storage tanks having a capacity of 600,000 barrels are also owned.

The acquisition of the Southern Oil Corporation properties makes the Kansas & Gulf Company a complete petroleum organization and adds materially to the upset value of the company as a going concern, enabling it to turn to steady and consistent profit all the crude oil production and to adjust and discount many of the embarrassments that occasionally overtake exclusive producing organizations.

Intrinsic Values

Valuation of Kansas & Gulf properties, as indicated by the application to list on

DIVIDENDS

PACIFIC GAS AND ELECTRIC CO.

FIRST PREFERRED DIVIDEND NO. 29.
ORIGINAL PREFERRED DIVIDEND NO. 63.

The regular quarterly dividend of $1.50 per share upon the full-paid First Preferred and Original Preferred Capital Stock of the Company will be paid on November 15, 1921, to shareholders of record at close of business October 31, 1921. The transfer books will not be closed and checks will be mailed from the office of the company in time to reach stockholders on the date they are payable.

A. F. HOCKENBEAMER,
Vice-President and Treasurer.
San Francisco, California.

the New York Stock Exchange, is placed at $15,000,000. An engineering company has placed a valuation of a little more than $24,000,000 on the properties exclusive of the Southern Oil Corporation. No attempt will be made in this review to shade or expand these valuations, further than to state that the intrinsic merits and earning power of the combined properties conservatively and safely cover the listed valuations at a price of $7 per share and make the shares of the corporation a good oil investment. One of the best judges of oil properties, who has acted for many years as an expert appraiser for practical oil operators in making purchases of producing properties, made a careful investigation of Kansas & Gulf properties, and he unhesitatingly approved the properties and their management. Knowing this appraiser and his ability in this line, we have no hesitation in accepting his approval or disapproval of oil properties, for he is noted for his conservative judgment.

ARE LIBERTY BONDS ON WAY TO PAR?

(*Continued from page* 17)

they sold at par and for some time after that. With the advance in money rates they and the other Liberty issues declined. Now, with the drop in interest rates, these issues are advancing. This is only a logical development. The question is: have they advanced enough? With regard to the longer-term Liberty bond issues, it is my conviction that they still have a long way to go before selling at their proper value. Correspondingly, this should indicate a real opportunity to conservative investing folk.

THE ORGANIZATION OF MODERN BUSINESS—by William R. Basset.

In this book the author does not describe the detailed methods of management, but rather draws attention to the policy side of a business organization. If a business is to give service and to make profits it must be so organized that what it produces shall be the best and cheapest of its kind, and, in order to accomplish this, many conditions all too common in our present day manufacturing plants must be improved. It is to these that the author devotes himself.

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